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No. 06-

IN THE

Supreme Court of the United States

MIGUEL FIGUEROA,

Petitioner,

v.

UNITED STATES OF AMERICA,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED

Whether there can be a constitutionally *rational basis* in Congress' relatively recent policy of diversion to unrelated agencies of inventors' patent fees raised under the Patent Clause to such a massive and serious extent as to place the Patent Office in an admitted operational crisis where it is unable seasonably to perform Congress' function under the Patent Clause of "securing" patents to "promote the progress of . . . the useful arts"; but to the contrary has become stonewalled and disabled in a hopeless circumstance where "the application backlog is now approximately *one- million and rising*, and the *first action* on the merits pending in some art units exceeds *ten years*"[1], and with a financially dictated hiring freeze.

Whether to prove such diversions constitutionally *irrational* under such circumstance, this Court's recent holdings in *Eldred v. Ashcroft*[2] have now imposed on petitioner the added burden to show that the dollar amount of such diversion exceeded what speculatively "*could*" have been argued as contributions to the patent system of "Commerce, Justice, State, the Judiciary, and Related Agencies."[3]

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1. Quoted from minority opinion of the Court of Appeals (App. A, 27a, footnote 1). Italics added.

2. 537 U.S. 186 (2003)

3. Quoted from majority opinion (App. A, 17a).

Whether such fee division to unrelated agencies, particularly of *post*-patent grant periodic inventor maintenance fees, constituted merely what the majority opinion held to be an "excise tax"[4], or, as held by the minority opinion, are such rather "an *unapportioned direct tax*"[5] on inventors property prohibited by the Direct Tax Clause.

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4. App. A, 22a.

5. App. A, 29a.

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Petitioner Miguel Figueroa, an inventor and patentee, respectfully seeks a writ of certiorari to the United States Court of Appeals for the Federal Circuit.

OPINIONS BELOW

The opinions of the Federal Circuit, both majority (App. A, 1a-23a), and minority concurring in the judgment (App. A, 24a-29a), were entered on October 11, 2006, and are reported at 466 F.3d 1023 (Fed. Cir. 2006). The decision of the United States Court of Federal Claims (App. B, 30a-66a) on cross motions for summary judgment was entered on June 28, 2005, and is reported at 66 Fed. Cl. 139 (2005). The prior opinion and order of the Court of Federal Claims denying defendant's motion to dismiss for lack of subject matter jurisdiction and for failure to state an illegal exaction claim under the Patent Clause, was entered on August 15, 2003, and is reported at 57 Fed. Cl. 488 (2003), (App. C, 67a).

JURISDICTION

The court of appeals entered its judgment in this case on October 11, 2006. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

CONSTITUTIONAL PROVISIONS INVOLVED

Article I, § 8, cl. 8 (Patent Clause)

> That Congress shall have the power . . . [t]o promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries[.]

Article I, § 2, cl. 3 (Direct Tax Clause)

> dire[illegible] axes shall be apportioned among the several States which may be included within this Union, according to their respective Numbers.

and

Article I, § 9, cl. 4 (Direct Tax Clause)

> [n]o Capitation, or other direct, Tax shall be laid, unless in the Proportion to the Census or Enumeration herein before directed to be taken.

STATEMENT OF THE CASE

This case presents important questions *of first impression* of Constitutional law and of federal patent law, with significant implications for the national economy.

Within the past decade, Congress instituted a new policy of successively increasing inventors' patent fees before the Patent Office (hereinafter "PTO") and then *diverting* substantial and successively increasing portions of such fees *away* from the support of the PTO and directing such rather for the support of other agencies that the minority opinion of Judge Newman herein describes as having no "rational relationship to the constitutional charge to promote the progress of the useful arts" mandated in the Patent Clause.

These diversions were effected while new technologies have been explosively developing and an increasing volume of patent applications has been inundating the PTO. The

diversions, indeed, were of such *substantial* proportions [6] (almost half a billion dollars, App. A, 6a) that they seriously contributed to disabling the PTO from performing the constitutional Congressional mission of adequately "securing" patents. Rather, such have created a patent application "backlog of the PTO . . . rapidly increasing", and while "expanded services remain *un*funded" (App. A, 27a). The crisis in "securing" patents has become such that

> 'the application backlog is now approximately *one million and rising*, and the first action on the merits pending in some art units *exceeds ten years*'. (Italics added)

Petitioner, as an inventor and patentee and inventors' fee payor, filed suit in the United States Court of Federal Claims, asserting an illegal exaction claim under the Patent Clause and improper taxation under the Direct Tax Clauses, as to the former of which the court denied the government's motion to dismiss (App. C, 67a). On subsequently filed cross motions for summary judgment, the Claims Court denied petitioner's claim stating that he "has not carried his burden of showing that Congress behaved irrationally" (App. B, 30a), and an appeal was accordingly taken to the Federal Circuit and there denied (App. A, 24a)—the decision underlying this petition.

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6. The Claims Court finding of "substantial" and "permanent" diversions.

REASONS FOR GRANTING THE PETITION

1. As To The First Question

The court of appeals below has described the first constitutional question raised herein as questioning whether Congress can impose inventors' fees raised under the Patent Clause that have "no rational relationship between the fees imposed and the costs of running the patent system" (App. A, 11a).

This is *not*, however, a correct characterization of petitioner's actual or complete question herein, and it is presented in a time vacuum that totally ignores the setting and graveness of the practice of which petitioner complains.

The more correct question—and it is one of *first impression* in constitutional law because never in over 200 years of constitutional history did Congress previously engage in this practice—is whether Congress can constitutionally divert those inventors' fees to spend on other unrelated agencies and to such a large and "substantial" extent as to prevent the PTO from performing the constitutional mandate of seasonably "securing" patents to inventors—i.e. the constitutional mission of the Patent Clause.

What has happened over the recent years of this new practice is that Congress started to divert or siphon off inventors' fees to support unrelated agencies, even through, as Judge Newman states in the minority opinion, the inventors fee structure of the Patent Clause statutory authorizations

> was never intended to provide government income to fund unrelated activities . . .

(App. A, 26a, 27a).

Over the past few years, however,

> as the income increased from maintenance fees, the PTO came to be viewed as a kind of 'profit center' for the support of unrelated government projects.

Each year of this practice, Congress diverted more and more of the inventors' fees to unrelated "beneficiaries of the diverted PTO collections", as to which the minority opinion correctly found that

> It is not pretended that any of the recipients of the diverted funds has a rational relationship to the constitutional charge to promote the progress of the useful arts.

(App. A; 26a).

The diversions, as earlier recounted, grew into massive proportions (almost half a billion dollars, App. A, 6a) while, as noted by Judge Newman,

> meanwhile, the backlog of the PTO is rapidly increasing and expanded services remain unfunded.

(App. A, 27a);

and to such a serious extent that Congress has disabled itself from performing its constitutional mission of adequately "securing" patents, by stonewalling the PTO into crisis where

> 'the application backlog is now approximately *one-million and rising*, and the *first* action on the merits pending in some art units *exceeds ten years*'.

This not only has effectively disabled the performing of the constitutional mission of "securing" patents, but it has placed the United States at a terrible economic disadvantage with foreign countries that do adequately support the seasonable granting of patents.

In many fast-growing technological fields, a *ten-year* wait for a first action on patent applications, while accumulating a "*one-million and rising*" backlog of unacted-upon patent applications, is far from "securing" inventors rights—it is rather destroying the value of those rights!

This places the United States in a most disadvantageous position in world economic affairs.

Petitioner would suggest that patents seriously delayed, are patents *un*secured.

Petitioner's first question thus, is not what the court of appeals has *mis*-characterized as questioning the constitutional power under the Patent Clause to impose patent fees that exceed "the costs of running the patent system", but rather whether there can possibly be a *rational basis* in *spending* those fees on *non-patent* system projects to the extraordinary and disastrous degree of stonewalling its own ability to perform its constitutional mission to promote the progress of the useful arts!

And in petitioner's succeeding in proving that Congress has indeed painted itself into a corner with its practice of diversionary spending of inventors' fees, has not your petitioner actually assumed and met the required "extremely heavy burden of establishing that congressional actions violate the Constitution" (App. A, 24a)?

As a matter of constitutional law, therefore, petitioner raises in his first question whether there can possibly be a "*rational basis*" for seriously disabling the PTO and thereby *inhibiting*—not *promoting*—the progress of the useful arts mandated in the Patent Clause.

2. As To The Second Question

The second and corollary question is whether this Court's recent decision in *Eldred v. Ashcroft*[2] has now placed the further burden on petitioner in order to prove *irrationality*, to demonstrate that the dollar amount of such diversions exceeded what speculatively "could' have been argued (App. A, 16a) as possible contributions to the patent system of "Commerce, Justice, State, the Judiciary, and Related Agencies".[3]

In posing this proposition, again the court of appeals has totally ignored the *real-world* time factor setting and situation, wherein the PTO has now been seriously *disabled* from performing Congress' mission under the Patent Clause.

Secondly, also in connection with the *real world*, as stated in the minority decision (App. A, 26a)

> Congress' actual goals are stated in the budgetary diversion, and do not include those postulated by the panel majority . . . It is not pretended that any of the recipients of the diverted funds has a rational relationship to the constitutional charge to promote the progress of the useful arts.

Thirdly, the court of appeals has apparently forgotten that, as a member of the general citizenry, petitioner already

otherwise pays federal taxes for his share of operation of "Commerce, Justice, State, the Judiciary, and Related Agencies".

And, lastly, in applying the two-part test of the *Eldred* decision [(1) supporting text, history and precedent of the Patent Clause, and (2) rational basis for promoting the progress of useful arts by securing an inventor's rights], petitioner urges that Congress' conduct herein fails both of the applicable tests.

As earlier stated, this is the first time in the history of the country that Congress has adopted this diversionary practice with regard to Patent Clause inventors' fees and presents a case of *first impression.* [It is no wonder that the Court of Claims several times mentioned that petitioner "has not cited" a precedent (App. C, 57a, 63a)]. And, contrary to the hypothetical arguments in the decision below, there is no rational basis to conclude that legislating a substantial tax against inventors somehow promotes the progress of useful arts by securing inventors' rights—and certainly no basis for destroying the capability of the PTO to do such.

3. As To The Third Question

The issue of whether the diverted patent fees exceeded the total costs of the patent system, particularly under the conditions of disability of the PTO seasonably to secure patent rights, is not believed to be germane to this question as to whether the *post*-patent grant periodic inventor maintenance fees are "excise taxes" (majority, App. A, 22a) or, rather, "unapportioned direct taxes" on property (minority App. A, 29a) in violation of the Direct Tax Clauses.

Unlike other types of patent fees at issue, the maintenance fees are paid periodically after a patent has been granted to the inventor—i.e. *after* the PTO has secured an inventor's property right. The only transaction is the payment of the maintenance fees. If an inventor (patentee) pays these, the inventor keeps his or her property. If the inventor fails to pay this, the inventor forfeits the property. In operation, there is no difference between this and a direct tax on real property.

Petitioner therefore urges that the minority opinion correctly characterizes these maintenance fees as "unapportioned direct tax", and in stating that "The Federal Government cannot assess any unapportioned tax on the ownership of property." (App. A, 29a)

CONCLUSION

The minority opinion made clear that Judge Newman does "not share the reasoning of the panel majority", finding rather that petitioner's position "is *not* without merit" (App. A, 25a) and that it involves "potentially viable constitutional arguments of illegal exaction and improper taxation"—that is, had petitioner's proofs "shown that the diverted funds exceeded these total costs" of the patent system.

Petitioner, however, urges the irrelevance of the need for such a showing in this case where petitioner has clearly shown the disabling of the PTO to secure patents—the *ir*rational behavior of the Congress here at issue.

The minority opinion concludes (App .A, 29a)

> Mr. Figuero, an inventor, has expressed valid concern for the nation's prosperity and vigor as

> derived from advances in science and technology. He exhorts optimum support of the PTO's assignment, to implement this constitutional purpose. *His constitutional arguments are not devoid of merit, and warrant deeper exploration* than they have thus far received.

Petitioner urges the granting of this petition, to afford such "deeper exploration" by this Supreme Court in the national interest, such that these pressing questions are promptly settled.

Respectfully submitted,

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APPENDIX

APPENDIX A — OPINION OF THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT DECIDED OCTOBER 11, 2006

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

No. 05-5144

MIGUEL FIGUEROA,

Plaintiff-Appellant,

v.

UNITED STATES,

Defendant-Appellee.

DECIDED: October 11, 2006

Before NEWMAN, DYK, and PROST, Circuit Judges.

Opinion for the Court filed by *Circuit Judge* DYK. Opinion concurring in the judgment filed by *Circuit Judge* NEWMAN.

DYK, Circuit Judge.

This is a suit for a refund of patent fees alleged to have been unlawfully exacted. The appellant, Miguel Figueroa ("Figueroa"), contends that the statutory patent fees imposed on him in 2001 and 2002 for filing his patent application and issuing his patent violated art. I, § 8, cl. 8 of the United

States Constitution (the "Patent Clause"), because the statute was designed to generate revenue to fund federal programs other than the United States Patent and Trademark Office ("PTO"). Figueroa also contends that the fees constituted an impermissible direct tax in violation of art. I, §§ 2 & 9, cl. 4 (the "Direct Tax Clauses"). The Court of Federal Claims granted summary judgment for the United States on the first claim and dismissed the second. We affirm.

BACKGROUND

The principal issue in this appeal is whether Congress may constitutionally impose patent fees in an amount above what is used to fund the PTO. The pertinent facts are not in dispute.

I

Congress has imposed fees on the grant of patent rights since the first Patent Act in 1790. Under the 1790 Act, patent fees totaled roughly $5. 1 Stat. 109, 112 (1790). Patent fees did not total more than $100 until 1965, when Congress increased the statutory patent application fee to $65 and the statutory patent issuance fee to a minimum of $112. Pub.L. No. 89-83, 79 Stat. 259 (1965).[1] In 1980, Congress for the

1. In the 1793 Patent Act, Congress increased total patent fees to approximately $30. 1 Stat. 318, 323 (1793). Patent fees remained stable until 1861, when Congress imposed separate patent application and issuance fees, set at $15 and $20, respectively. 12 Stat. 246, 248 (1861). Congress increased those fees to $20 each in 1922, 42 Stat. 389, 393 (1922), $25 each in 1930, 46 Stat. 155 (1930), and $30 each in 1932. 47 Stat. 382, 410 (1932). In the Patent Act of 1952, Congress established the PTO but did not raise patent fees. Pub.L. No. 82-593, 66 Stat. 792 (1952).

first time required periodic patent maintenance fees. Pub.L. No. 96-517, § 2, 94 Stat. 3015 (1980). The 1980 legislation established "the Patent and Trademark Office Appropriation Account" in the treasury and required that all patent fee revenues be credited to that account. *Id.* That account continues in existence to this day.

In 1982, Congress set the patent application fee at $300, the patent issuance fee at $500, and the patent maintenance fees at $400 due three years and six months after issuance, $800 due seven years and six months after issuance, and $1,200 due eleven years and six months after issuance. Pub.L. No. 97-247, § 3(a)-(b), 96 Stat. 317, 317-18 (1982).

In the Omnibus Budget Reconciliation Act of 1990 ("OBRA"), Congress imposed a sixty-nine percent surcharge on top of both patent application and issuance fees. Pub.L. No. 101-508 § 10101(a), 104 Stat. 1388, 1388A-391 (1990). The surcharge expired at the end of fiscal year ("FY") 1998. Pub.L. No. 103-66, § 8001, 107 Stat. 312, 402 (1993).

For FY 1999 Congress increased the statutory patent application fee to $760, increased the statutory patent issuance fee to $1,210, and increased patent maintenance fees to $940, $1,900, and $2,910 due at the previously established time intervals. Pub.L. No. 105-358, § 3(a)-(b), 112 Stat. 3272, 3273-74 (1998). For FY 2000 Congress set patent application, issuance, and maintenance fees at their current levels: $690 for the application fee, $1,210 for the issuance fee, and $830, $1,900, and $2,910, respectively, for the maintenance fees.

Pub.L. No. 106-113, § 4202, 112 Stat. 1501, 1501A-554 (1999). The patent fee structure is set forth in 35 U.S.C. § 41 (2000).[2]

Failure to pay application or issuance fees is treated as an abandonment of the application, 35 U.S.C. §§ 111(a)(4), 151 (2000); failure to pay required maintenance fees results in expiration of the patent, 35 U.S.C. § 41(b).

The heart of this case concerns Congress's decision not to appropriate all of the fees collected to fund PTO operations. Between FY 1991 and FY 1999 Congress in its appropriations bills had made patent fee revenue (with the exception of surcharge revenue) "available [to the PTO] until expended." *See, e.g.*, Pub.L. No. 108-199, 118 Stat. 3 (2004).[3] Beginning in FY 1999, Congress limited the amount of patent fee revenue the PTO was authorized to spend. *See, e.g.*, Pub.L. No. 105-358, § 3(b), 112 Stat. 3272, 3273-74 (1998). As a result, some patent fee revenue was not available to the PTO. Figueroa refers to Congress's withholdings of patent fee revenue as "diversions" of that revenue.

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2. Congress has established a slightly different scheme for trademark fees. Though deposited into the same special treasury account as patent fee revenue, 35 U.S.C. § 42(b) (2000), trademark fee revenue may be used only to fund the PTO's trademark operations. 35 U.S.C. § 42(c). There is no such limitation on the expenditure of patent fee revenue.

3. Beginning with FY 1992, Congress withheld surcharge revenue from PTO appropriations, allowing Congress to utilize these funds for other programs.

Appendix A

Also beginning in FY 1999 Congress enacted a series of "rescissions" of PTO authority to spend revenues from patent fees and redirected the revenue to other purposes.[4] Congress rescinded roughly $71 million in FY 1999 for use in deficit reduction, Pub.L. No. 105-277, 112 Stat. 2681 (1998), roughly $1 million in FY 1999 to offset subsidies to the steel, coal, and oil industries, Pub.L. No. 106-51, § 202, 113 Stat. 258 (1999), roughly $3 million in FY 2000 to offset spending on a variety of federal programs, Pub.L. No. 106-113, Appx. E § 301(a), 113 Stat. 1501, 1501A-303 (1999), and roughly $1 million in FY 2002 to offset appropriations for homeland security programs, Pub.L. No. 107-206 § 1403(a), 116 Stat. 820, 898 (2002).

Between FY 1991 and FY 2004, the PTO collected roughly $11.1 billion in total fee revenue (including surcharge revenue) while its operational costs only totaled around $10.6 billion, for a surplus of approximately $545.1 million. The Court of Federal Claims found that from FY 1992 to the present, at least $422.5 million in patent fee revenue has been directed to non-PTO spending.

Figueroa alleges that the following table represents the total amounts of diverted and rescinded patent fees for FYs 1999 through 2004 (numbers are in millions):

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4. A rescission is a legislative withdrawal of the PTO's budgetary authority to spend a portion of the fee revenue collected during the fiscal year.

Appendix A

Fiscal Year	Total Patent Fee Receipts	Total Patent Fee Appropriations	Net Patent Fees Unavailable	Additional Patent Fee Rescissions	Total Patent Fees Diverted and Rescinded
1999	$ 887	$ 853	$ 34	$72	$106
2000	$1,006	$ 886	$120	$ 3	$123
2001	$1,085	$1,039	$ 46	-	$ 46
2002	$1,145	$1,121	$ 24	$ 1	$ 25
2003	$1,194	$1,182	$ 12	-	$ 12
2004	$1,321	$1,223	$ 99	-	$ 99

Since FY 1991, PTO operations have been funded entirely by fee revenue. However, PTO employee benefits, including pensions, health insurance, and life insurance, which are administered by the Office of Personnel Management ("OPM"), have been funded from the general treasury.[5]

II

Figueroa filed a patent application on February 27, 2001, and paid the statutory application fees. On August 7, 2001, he filed a complaint in the Court of Federal Claims, seeking to recover the fees paid, as well as declaratory and injunctive relief barring future allegedly illegal exactions of patent fees.[6] He alleged that the fees established by the patent fee statute exceeded Congress's power under the Patent Clause, constituted an unapportioned direct tax on intellectual property in contravention of the Direct Tax Clauses, and constituted a Taking under the Fifth Amendment. He argued that, as a consequence of Congress's allegedly unlawful diversions and rescissions of patent surcharge and patent fee

5. The PTO received general appropriations for employee benefit services totaling approximately $179 million for FYs 1997 through 2003.

6. In addition, Figueroa sought to certify a class of similarly situated individuals who had paid patent fees. The Court of Federal Claims stayed the class certification issue pending the resolution of dispositive motions. The court later held that claims accruing before August 8, 1995, were barred by the Tucker Act's six-year statute of limitations, 28 U.S.C. § 2501 (2000). The motion for class certification was denied as moot when the court granted summary judgment for the government.

revenue, the PTO now is underfunded to the point that it cannot keep up with the volume of patent applications. Figueroa subsequently paid the patent issuance fee, and on November 26, 2002, was issued United States Patent No. 6,484,923. The parties and the Court of Federal Claims treated Figueroa's complaint as seeking recovery of the issuance fee as well the application fee.

The government moved to dismiss Figueroa's claims pursuant to Rules of the Court of Federal Claims 12(b)(1) and 12(b)(6). The court (Judge Bohdan A. Futey) held that Figueroa had standing but dismissed Figueroa's Direct Tax claim for failure to state a claim pursuant to Rule 12(b)(6), concluding that the patent fees were a condition for obtaining an intellectual property right rather than a tax on existing property. The court also rejected Figueroa's takings claim, relying on our holding in *Commonwealth Edison Co. v. United States,* 271 F.3d 1327, 1329 (Fed.Cir.2001) (en banc), that "the Takings Clause does not apply to legislation requiring the payment of money." The court denied the government's motion to dismiss Figueroa's Patent Clause claim, construing it as a claim for an illegal exaction over which it had jurisdiction under the Tucker Act, 28 U.S.C. § 1491 (2000). Figueroa and the government then filed cross-motions for summary judgment on the Patent Clause claim. Figueroa argued that the Clause required that Congress's imposition of patent fees "promote the Progress of . . . useful Arts," and that increasing fees to fund non-PTO programs violated this requirement. The Court of Federal Claims granted summary judgment for the government. The Court held that the Patent Clause's preambular "promotion" language imposes an enforceable limit on Congress's

authority and assumed that the diversions and rescissions of patent fee revenue were "permanent and substantial," *Figueroa v. United States,* 66 Fed.Cl. 139, 146 (2005), but concluded that Figueroa had failed to establish that there was no rational relation between Congress's use of the fee revenue and the promotion of the useful arts.

Figueroa timely appealed. We have jurisdiction pursuant to 28 U.S.C. § 1295(a)(3) (2000).

DISCUSSION

We review the Court of Federal Claims' Rule 12(b)(6) dismissal and its grant of summary judgment without deference. *Moyer v. United States,* 190 F.3d 1314, 1317-18 (Fed.Cir.1999); *Alves v. United States,* 133 F.3d 1454, 1456 (Fed.Cir.1998).

I

In both the Patent Clause and Direct Tax claims, Figueroa's primary claim is that the patent fees he paid to the PTO were unlawfully exacted because Congress may only charge fees used to fund the PTO.[7] He also alleges that Congress unconstitutionally diverted patent fee revenue to fund non-PTO programs. He therefore seeks a determination that Congress's excess fees were unconstitutional, a refund of patent fees he paid in 2001 and 2002, and an injunction barring future diversions.

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7. Figueroa does not raise his takings claim on appeal.

Appendix A

As a threshold matter, and as the Supreme Court recently reiterated, we have an obligation to assure ourselves of Figueroa's standing under Article III of the Constitution. *DaimlerChrysler Corp. v. Cuno*, __ U.S. __, __, 126 S.Ct. 1854, 1860, 164 L.Ed.2d 589 (2006). To establish standing, a plaintiff must show that he suffered an injury-in-fact that is both fairly traceable to the challenged conduct of the defendant and likely redressable by a favorable judicial decision. *Id.* at 1861; *Lujan v. Defenders of Wildlife*, 504 U.S. 555, 560-61, 112 S.Ct. 2130, 119 L.Ed.2d 351 (1992); *Allen v. Wright*, 468 U.S. 737, 751, 104 S.Ct. 3315, 82 L.Ed.2d 556 (1984).

Figueroa suffered an injury-in-fact from actually paying patent fees. This injury is both traceable to the challenged conduct of charging fees in excess of that required to fund the PTO and redressable by a judicial award of a refund upon a finding that this conduct was unconstitutional. Figueroa thus has standing to challenge the legality of the fees that he paid. But Figueroa does not have standing to challenge the diversion of the fees once paid, except to the extent that the diversions are alleged to render the exaction of fees unconstitutional.

We proceed to consider Figueroa's claim that the fees he paid were unlawfully exacted.

II

Figueroa contends that the patent fees that he paid in 2001 and 2002 exceeded Congress's power under the Patent Clause for two separate reasons: first, he asserts that Congress

cannot impose fees that exceed the cost of operating the PTO; and second, he claims that even if Congress can do so, there is no rational relationship between the fees imposed and the costs of running the patent system.

A

The Patent Clause, art. I, § 8, cl. 8 of the Constitution, provides, in pertinent part:

> That Congress shall have the power . . . [t]o promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries[.]

U.S. Const., art. I, § 8, cl. 8. The Constitution also empowers Congress to "make all laws which shall be necessary and proper for carrying into execution the foregoing powers, and all other powers vested by this Constitution in the government of the United States." U.S. Const., art. I, § 8, cl. 18. Figueroa argues that the phrase "to promote the progress of science and useful arts" in the Patent Clause creates an independently enforceable substantive limitation on Congress's authority under the Clause.

In *Eldred v. Ashcroft*, 537 U.S. 186, 123 S.Ct. 769, 154 L.Ed.2d 683 (2003), the Supreme Court addressed the scope of Congress's authority under Article I, § 8, clause 8, as it relates to copyrights. The petitioner in *Eldred* argued that

the 1998 Copyright Term Extension Act,[8] which extended the duration of existing and future copyrights by 20 years, exceeded Congress's authority under the clause. *Eldred,* 537 U.S. at 195-96, 123 S.Ct. 769. The petitioner contended that "the [statute's] extension of existing copyrights does not 'promote the Progress of Science,' as contemplated by the preambular language of the Copyright Clause ... [which] identifies the sole end to which Congress may legislate." *Id.* at 211, 123 S.Ct. 769. The Court assumed, without deciding, that the preambular language imposed a limitation on Congress's authority. However, the Court rejected the petitioner's contention that the extension of copyright terms was categorically beyond Congress's power under the Clause, based on "an unbroken congressional practice" of enacting such extensions dating back to the first Congress in 1790. *Id.* at 199-200, 123 S.Ct. 769.

The Supreme Court in Eldred went on to consider whether there was a rational basis for the legislation. It upheld the challenged legislation, finding rational bases for the conclusion that it "promotes the Progress of Science." *Id.* These included making United States copyright law consistent with that of other nations, *see id.* at 205-06, 123 S.Ct. 769, encouraging "copyright holders to invest in the restoration and public distribution of their works," *id.* at 207, 123 S.Ct. 769, and responding to "increases in human longevity and ... the substantially increased commercial life of copyrighted works resulting from the rapid growth in communications media," *id.* at 207 n. 14, 123 S.Ct. 769.

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8. Pub.L. No. 105-298, § 102(b) & (d), 112 Stat. 2827-28 (1998).

Like the Supreme Court in *Eldred,* we assume, without deciding, that the Patent Clause's preambular language limits congressional authority to actions necessary and proper to "promot[ing] the progress of science and useful arts," and that this limitation is judicially enforceable. Unlike the Court of Federal Claims, we do not read any decision of the Supreme Court or our court as being to the contrary.[9]

B

We reject Figueroa's contention that the fees were categorically beyond Congress's power under the Patent Clause because Congress under that Clause cannot impose fees that exceed the costs of operating the PTO.

It is axiomatic that Congress is constitutionally empowered to create, administer, and maintain a "patent system." *Graham v. John Deere Co.,* 383 U.S. 1, 6, 86 S.Ct. 684, 15 L.Ed.2d 545 (1966). "Within the limits of the constitutional grant, the Congress may . . . implement the stated purpose of the Framers by selecting the policy which in its judgment best effectuates the constitutional aim." *Id.* It is well established that "Congress may set out conditions and tests for patentability." *Id.*[10] Patent fees are a condition

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9. *See Figueroa,* 57 Fed.Cl. at 499-500. The issue was not presented in either *Stiftung v. Renishaw PLC,* 945 F.2d 1173, 1180 (Fed.Cir.1991), or *Brenner v. Manson,* 383 U.S. 519, 528-29, 530-33, 86 S.Ct. 1033, 16 L.Ed.2d 69 (1966). And, the Court in *Eldred* rejected the notion that such a limitation was established in *Graham v. John Deere Co.,* 383 U.S. 1, 6, 86 S.Ct. 684, 15 L.Ed.2d 545 (1966). *See Eldred,* 537 U.S. at 211-12, 123 S.Ct. 769.

10. *See also Mast, Foos & Co. v. Stover Mfg. Co.,* 177 U.S. 485, 494, 20 S.Ct. 708, 44 L.Ed. 856 (1900); *McClurg v. Kingsland,* 42 U.S. (1 How.) 202, 206, 11 L.Ed. 102 (1843).

on the grant of a patent right; failure to pay the required fees results in denial of a patent. 35 U.S.C. §§ 41, 111; *see also Boyden v. Comm'r of Patents,* 441 F.2d 1041, 1043 (D.C.Cir.1971). Fees have been an accepted condition of patentability since the first patent statute was enacted in 1790. 1 Stat. 109, 112. Funding the patent system with patent fee revenue is clearly within Congress's authority.

Contrary to Figueroa's argument, the Patent Clause does not limit fees that Congress may impose to the amounts directly appropriated for operating the PTO. The patent system that Congress has established need not be, and is not, limited to the PTO. *United States ex rel. Bernardin v. Duell,* 172 U.S. 576, 583, 19 S.Ct. 286, 43 L.Ed. 559 (1899) ("[C]ongress may provide such instrumentalities in respect of securing to inventors the exclusive right to their discoveries as in its judgment will be best calculated to effect that object."). Indeed, we have previously explained that the Constitution does not require "even that there be a PTO." *Constant v. Advanced Micro-Devices, Inc.,* 848 F.2d 1560, 1564 (Fed.Cir.1988). Thus, for example, in the process of construing the Patent Act's non-obviousness provision, the Supreme Court in *Graham* expressly recognized that the federal courts have a role in "the administration of the patent system," insofar as courts share with the PTO the task of enforcing the requirements for patentability. *Graham,* 383 U.S. at 6, 18, 86 S.Ct. 684.[11] Moreover, Congress may

11. *See also Duell,* 172 U.S. at 583, 19 S.Ct. 286 ("[S]ince 1870 [Congress] has asserted the power to avail itself of the courts of the District of Columbia" to carry out its Patent Clause authority); *id.* (Chapter 7, § 2 of the 1790 patent statute, 1 Stat. 109, "authorized

(Cont'd)

constitutionally impose fees for patent application and issuance to serve a purpose other than raising revenue. As the Court recognized in *Eldred,* Congress may legitimately seek to advance other public policy goals related to the objectives of the Patent Clause by enacting legislation pursuant to the Clause. *See Eldred,* 537 U.S. at 205-07, 123 S.Ct. 769.

We conclude that Congress under the Patent Clause is not limited to enacting legislation to fund the PTO. We thus turn to the second step in the *Eldred* analysis: whether the fees imposed satisfy the rational basis requirement.

C

In deciding whether the legislation was permissible under the Patent Clause, we accord great deference to Congress's policy determinations. *Graham,* 383 U.S. at 6, 86 S.Ct. 684; *Eldred,* 537 U.S. at 204-205, 123 S.Ct. 769. As the Court reiterated in *Eldred,* "judicial review of legislation enacted . . . pursuant to Article I authorization" is limited to determining whether Congress's actions were "a rational exercise of the legislative authority conferred by the [Patent] Clause." *Eldred,* 537 U.S. at 204, 218, 123 S.Ct. 769. The question thus is whether there is a rational relationship between the present level of patent fees and Congress's

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(Cont'd)

the issue of patents by the secretary of state, the secretary for the department of war, and the attorney general."); *Constant,* 848 F.2d at 1564 ("Congress was fully within its constitutional power when it delegated power to the courts in 35 U.S.C. § 282 to adjudicate the validity of patents in infringement suits.").

legitimate objectives under the Patent Clause. *Eldred,* 537 U.S. at 212-13, 123 S.Ct. 769.

Figueroa argues that Congress's *reason* for enacting fees at their present levels-the desire to generate additional revenue to fund non-PTO programs—renders the fees irrational and therefore unconstitutional. We disagree. The question, rather, is whether there is a rational basis on which Congress *could* conclude that the level of fees served legitimate congressional objectives. In the Equal Protection context, the Supreme Court has held that, for purposes of rational basis review, "[w]here . . . there are plausible reasons for Congress's action . . . [i]t is . . . 'constitutionally irrelevant whether this reasoning in fact underlay the legislative decision[.]' " *U.S. R.R. Retirement Bd. v. Fritz,* 449 U.S. 166, 179, 101 S.Ct. 453, 66 L.Ed.2d 368 (1980) (quoting *Flemming v. Nestor,* 363 U.S. 603, 612, 80 S.Ct. 1367, 4 L.Ed.2d 1435 (1960)). The same test applies in this context. In *Eldred,* the Supreme Court, in conducting its rational basis review, did not limit itself to the policy justifications that Congress articulated. *See* 537 U.S. at 206, 123 S.Ct. 769 ("[P]rovid[ing] greater incentive for ··· authors to create and disseminate their work in the United States," though not specifically articulated by Congress, was a rational basis for the legislation.).

Under this standard it is clear that the fee legislation at issue here had a rational basis for at least three separate reasons, any one of which is sufficient to satisfy the constitutional requirement. First, it was rational for Congress to impose the fees to fund the overall patent system. The costs of that system are not limited to the direct costs of

operating the PTO. The direct costs appropriated by Congress for operating the PTO do not include employee benefits costs for PTO personnel, which are paid from general treasury funds under the "Commerce, Justice, State, the Judiciary, and Related Agencies" appropriations category.[12] Figueroa admits that those costs are substantial, averaging in excess of $27.5 million per year for FYs 1999 through 2003. In addition, costs of executive oversight for the PTO and other aspects of the patent system by the Commerce Department are not included in the PTO appropriation.[13] Finally, there are the costs of operating the federal court system, which provides a forum for resolving patent disputes, both on appeals from PTO actions and in private infringement litigation. The appellant here has not even attempted to quantify these other costs of operating the patent system or made any effort to show that they are disproportionate to the revenue raised from patent fees that is not directly appropriated to the PTO.

Figueroa complains that the actual dollars collected were not used to fund the patent system. The Patent Clause imposes no dollar-for-dollar traceability requirement. Even if the particular revenues are not directly used for the system, the fees bear a rational relationship to the cost of running the patent system.

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12. The government's expert stated in a deposition that he estimated health and retirement benefit costs for PTO employees since 1971 at around $3.02 billion.

13. The Department of Commerce is responsible for PTO policy management. 35 U.S.C. § 1(a) (2000) ("In carrying out its functions, the United States Patent and Trademark Office shall be subject to the policy direction of the Secretary of Commerce.").

Second, even if the fees collected exceeded these secondary costs of operating the patent system within any given year, Congress also could have rationally concluded that increased patent fees were necessary to keep pace with the likely future costs of administering the PTO and the patent system.[14] PTO operating costs have increased by over $800 million since FY 1991 alone. Congress cannot know in advance precisely how much patent fee revenue will be generated in any given fiscal year; thus Congress could rationally decide to set patent fees at a level high enough to ensure sufficient funding for the patent system even if Congress knew that, in some years, fee revenue might exceed PTO operating costs. Indeed, because the costs of PTO operations in issuing and maintaining patents are incurred over a number of years, Congress could rationally conclude that patent fees should be set in amounts designed to provide sufficient revenue to carry over into subsequent fiscal years and offset future costs. Even assuming the rescissions were permanent, the vast majority of diverted patent fee revenue remains available for later years. On at least one occasion, Congress has appropriated funds from prior years to the PTO. Pub.L. No. 106-42, 113 Stat. 217 (1999).

Finally, even if fees exceeded the existing and predicted costs of operating the patent system, Congress could also rationally decide to set fees above what is needed to meet

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14. As the Court of Federal Claims noted, "Congress has no duty or obligation to spend all the patent fees collected as soon as they are collected. In fact, since patent applications usually take months, if not several years to adjudicate, it would be absurd to require such an outcome since the work could well occur in another fiscal year." *Figueroa,* 66 Fed.Cl. at 152.

the funding needs of the PTO in order to deter the filing and prosecution of certain types of patent applications. The Supreme Court has recognized that Congress may legitimately impose taxes or fees in order to discourage undesirable behavior. *See Dep't of Revenue of Mont. v. Kurth Ranch,* 511 U.S. 767, 780-81, 114 S.Ct. 1937, 128 L.Ed.2d 767 (1994); *Nat'l Cable Television Ass'n, Inc. v. United States,* 415 U.S. 336, 341, 94 S.Ct. 1146, 39 L.Ed.2d 370 (1974).

Congress could rationally seek to discourage applications for patents that would later likely be found invalid. Congress could also rationally seek to discourage patent applications for inventions where the patent is sought only for the sake of personal recognition.[15] And, Congress could rationally decide

15. Congress in 1830 considered increasing patent fees to discourage meritless applications. *See* 6 Gale & Seaton's Register of Debates in Congress 377 (21st Cong., 1st Sess.1830). Congress has more recently heard testimony advocating increased patent fees for the same purpose: "We believe that certain types of fees . . . can be reasonably tailored to foster best practices. Establishing fees to ensure that applicants will pay the actual costs of the effort required on the part of the PTO to examine applications could have the salutary effect of discouraging applicants from needlessly filing inordinately large numbers of claims and excessively long patent specifications." Statement of Michael K. Kirk, American Intellectual Property Law Association, to the House Judiciary Committee, July 18, 2002, 2002 WL 1587908; *see also* Mark A. Lemley, *Rational Ignorance at the Patent Office,* 95 Nw. U.L.Rev. 1495, 1506 (2001) ("[S]ome patents are issued, especially to individuals, not because they have any market value but simply because the applicant really wants a patent on his invention, no matter how little commercial value it is likely to have."); *id.* at 1508-10 (suggesting that increasing the costs of patent prosecution to inventors may deter undesirable applications).

to discourage patent applications from inventors who seek the patent only as a means of inhibiting innovation by competitors.[16] Congress could also rationally conclude that increasing patent fees would discourage the filing of such applications because those applications lack commercial potential.

We conclude that a rational relationship exists between the fees established and the operation of the patent system, and thus that summary judgment for the government was appropriate on Figueroa's Patent Clause claim. In the light of our conclusion that the fees are constitutional under the Patent Clause, we need not address the government's contention that, even if the Patent Clause imposes some substantive limitation on Congress's authority, it does not limit Congress's authority to impose patent fees because Congress has plenary power to impose such fees under the General Welfare and Commerce Clauses.

II

Figueroa next contends that the PTO's assessment of present-level patent fees amounted to an unconstitutional Direct Tax, and thus an unlawful exaction, insofar as those

16. *See id.* at 1516 ("[P]otential competitors or follow-on innovators might be deterred from entering the field by the existence of patents owned by their competitors."); *see also Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146, 109 S.Ct. 971, 103 L.Ed.2d 118 (1989) ("From their inception, the federal patent laws have embodied a careful balance between the need to promote innovation and the recognition that imitation and refinement through imitation are both necessary to invention itself and the very lifeblood of a competitive economy.").

fees were used to fund non-PTO programs. Article I, section 2, clause 3 of the Constitution provides that "direct Taxes shall be apportioned among the several States which may be included within this Union, according to their respective Numbers." U.S. Const. art. I, § 2, cl. 3. The Constitution also provides that "[n]o Capitation, or other direct, Tax shall be laid, unless in the Proportion to the Census or Enumeration herein before directed to be taken." *Id.* art. I, § 9, cl. 4. Since patent fees are uniform for all patentees regardless of their state of residence, Figueroa contends, they constitute an unapportioned direct tax in violation of Article I, section 9, clause 4.

It is doubtful that the patent fees, paid for the privilege of securing a patent grant, should be viewed as taxes rather than payments for a privilege. *See Boyden,* 441 F.2d at 1043 (One "is privileged to seek the [patent] monopoly only upon compliance with the conditions which Congress has imposed . . . [including] the payment of fees required for the administration of the patent laws."). However, we conclude that, even if patent fees constitute a tax on intellectual property, they are an excise tax rather than a direct tax and need not be apportioned.

Figueroa argues that patent rights are personal property, and that the Supreme Court's decision in *Pollock v. Farmers' Loan & Trust Co.,* 157 U.S. 429, 15 S.Ct. 673, 39 L.Ed. 759 (1895) ("*Pollock I*"), established that unapportioned taxes levied on personal property may constitute unlawful direct taxes. We agree in both respects. However, in *Union Electric Co. v. United States,* 363 F.3d 1292 (Fed.Cir.2004), we examined *Pollock I* and its successor case, *Pollock v.*

Farmers' Loan & Trust Co., 158 U.S. 601, 15 S.Ct. 912, 39 L.Ed. 1108 (1895) (" *Pollock II* "), at length. We held that *Pollock I* and *Pollock II* stand for the proposition "that the only impermissible direct tax on personal property is a general tax on broad classes of personal property." 363 F.3d at 1302.

So too in *Union Electric* we held that "a tax imposed upon the acquisition, ownership, or use of particular kinds of categories of property that falls short of being a general tax on the whole of an individual's personal property"—is an *excise* tax which need not be apportioned. *Id.* at 1304. It follows that patent fees, to the extent they are a tax on patent rights, are an excise tax: the fees are levied upon the acquisition and ownership of patent rights. Patent rights are a "particular kind" of personal property. 35 U.S.C. § 261 (2000).[17] A tax on patents, therefore, is like other taxes on specific categories of personal property that the Supreme Court has sustained against direct tax challenges. Examples include taxes on community property, *Fernandez v. Wiener*, 326 U.S. 340, 362, 66 S.Ct. 178, 90 L.Ed. 116 (1945), gifts, *Bromley v. McCaughn*, 280 U.S. 124, 138, 50 S.Ct. 46, 74 L.Ed. 226 (1929), estate assets, *N.Y. Trust Co. v. Eisner*, 256 U.S. 345, 41 S.Ct. 506, 65 L.Ed. 963 (1921), mine production, *Stanton v. Baltic Mining Co.*, 240 U.S. 103, 36 S.Ct. 278, 60 L.Ed. 546 (1916), foreign-built yachts, *Billings v. United States*, 232 U.S. 261, 34 S.Ct. 421, 58 L.Ed. 596

17. *See also eBay v. MercExchange, L.L.C.*, __ U.S. __, 126 S.Ct. 1837, 1840, 164 L.Ed.2d 641 (2006); *Consolidated Fruit-Jar Co. v. Wright*, 94 U.S. 92, 96, 24 L.Ed. 68 (1876); *Rhone Poulenc Agro, S.A. v. DeKalb Genetics Corp.*, 284 F.3d 1323, 1329 (Fed.Cir.2002).

(1914), stock sale contracts, *Thomas v. United States,* 192 U.S. 363, 370, 24 S.Ct. 305, 48 L.Ed. 481 (1904), proceeds from sugar refining, *Spreckels Sugar Ref. Co. v. McClain,* 192 U.S. 397, 24 S.Ct. 376, 48 L.Ed. 496 (1904), proceeds from tobacco production, *Patton v. Brady,* 184 U.S. 608, 22 S.Ct. 493, 46 L.Ed. 713 (1902), legacies and distributive shares of personal property, *Knowlton v. Moore,* 178 U.S. 41, 83, 20 S.Ct. 747, 44 L.Ed. 969 (1900), and carriages, *Hylton v. United States,* 3 U.S. (3 Dall.) 171, 1 L.Ed. 556 (1796). These taxes were upheld because they were "carefully tailored tax[es] . . . levied upon only one particular kind of personal property." *Union Elec.,* 363 F.3d at 1302. The same is true here even if the fees may be fairly equated to a tax.[18]

We conclude that Figueroa's direct tax claim was properly dismissed.

CONCLUSION

For the foregoing reasons, the decisions of the Court of Federal Claims are affirmed.

AFFIRMED.

COSTS

No costs.

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18. Patent application and issuance fees may also be viewed as taxes on the transfer of the patent right to the patentee. We have held that a tax on the transfer of property does not constitute a direct tax. *NationsBank of Tex., N.A. v. United States,* 269 F.3d 1332, 1335 (Fed.Cir.2001).

Appendix A

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

No. 05-5144

MIGUEL FIGUEROA,

Plaintiff-Appellant,

v.

UNITED STATES,

Defendant-Appellee.

NEWMAN, *Circuit Judge*, concurring in the judgment.

Although Mr. Figueroa's petition is not without merit, I conclude that he has not met the extremely heavy burden of establishing that congressional actions violate the Constitution. It may be that additional data in support of his various arguments could shift the balance, but on the record before us, I agree that the judgment of the Court of Federal Claims must be affirmed. However, I do not share the reasoning of the panel majority. I would affirm on the ground applied by the Court of Federal Claims, ruling that Congress is not acting irrationally.

The Court of Federal Claims compared the amount of funds that were diverted from the PTO, with the government's very rough estimate of the additional patent-related costs that are paid out of general government funds, including the PTO

employee retirement expenses that are paid by OPM, the costs to the Department of Commerce as the parent agency of the PTO, the costs of judicial dealings with patent matters, of patent exclusion activities of the Customs Service and the International Trade Commission, and miscellaneous other items. The Court of Federal Claims concluded that Mr. Figueroa had not shown that the diverted funds exceeded these total costs. I agree that the evidence did not clearly establish that Congress was extracting more money from patentees than the government spends in administering the system. Thus his potentially viable constitutional arguments of illegal exaction and improper taxation were not demonstrated so clearly and convincingly as to establish a constitutional violation.

Mr. Figueroa also makes a strong argument that the unduly high fees are a burden on the constitutional purpose to promote the useful arts. Although without doubt the patent system should not be unnecessarily burdened, the absence of quantification and hard evidence of the effect of the fee structure weakens the constitutional force of this argument.

Although I agree that the dismissal must be affirmed, I cannot join in the panel majority's reasoning. The panel majority concedes that there must be a rational basis between the congressional diversion of the PTO fees and the constitutional purpose of promoting the useful arts; the majority opinion speculates about what such a rational basis might be, and recites with approval the theory that the imposition of higher than necessary fees will "deter the filing and prosecution of certain types of patent applications without commercial potential." Indeed, one occasionally

hears the gibe that people will obtain a patent simply for the glory of hanging a beribboned document on the wall. Although generally tongue-in-cheek, and never heard from inventors and investors, the panel majority includes it as serious justification for the higher fees that enable the ensuing fee diversion. However, Congress' actual goals are stated in the budgetary diversion, and do not include those postulated by the panel majority. The beneficiaries of the diverted PTO collections are identified in the congressional action, such as the $77 million diverted to homeland security in 2004. It is not pretended that any of the recipients of the diverted funds has a rational relationship to the constitutional charge to promote the progress of the useful arts.

Mr. Figueroa argues cogently that high fees place a burden on patent-supported investment and disclosure and development. Economists stress the importance of patent-type structures in commercial risk analysis and entrepreneurship. When the patent fee structure was realigned in 1982 to include fees to be assessed after the patent has issued, that is, the "maintenance" fees levied at 3 1/2, 7 1/2, and 11 1/2 years after grant, the purpose was to place the increased burden of patent administrative costs on those patents that achieve commercial value. Mr. Figueroa is correct that the fee structure was never intended to provide government income to fund unrelated activities. *See* 35 U.S.C. § 41 (authorizing the Director of the PTO to set fees "to recover the estimated average cost to the Office of such processing, services, or materials"). However, as the income increased from maintenance fees, the PTO came to be viewed

as a kind of "profit center" for the support of unrelated government projects. Meanwhile, the backlog of the PTO is rapidly increasing,[1] and expanded services remain unfunded.

Mr. Figueroa's argument based on the constitutional mandate is elaborated in *Graham v. John Deere Co.*, 383 U.S. 1, 86 S.Ct. 684, 15 L.Ed.2d 545 (1966):

> At the outset it must be remembered that the federal patent power stems from a specific constitutional provision which authorizes the Congress "To promote the Progress of * * * useful Arts, by securing for limited Times to * * * Inventors the exclusive Right to their * * * Discoveries." Art. I, § 8, cl. 8. The clause is both a grant of power and a limitation. . . . The Congress in the exercise of the patent power may not overreach the restraints imposed by the stated constitutional purpose.

383 U.S. at 5-6, 86 S.Ct. 684 (footnote and citations omitted). The Court has also explained that congressional enactments implementing the Patent and Copyright Clause must be "rationally related" to the constitutional objective. *See, e.g., Eldred v. Ashcroft*, 537 U.S. 186, 212-13, 123 S.Ct. 769, 154 L.Ed.2d 683 (2003) (considering whether lengthening the copyright term has a rational basis to "promoting the progress

1. The Commissioner of Patents recently explained that the application backlog is now approximately one-million and rising, and the first action on the merits pendency in some art units exceeds ten years. http:// www. uspto. gov/ web/ offices/ pac/ dapp/ opla/ presentation/chicagoslides-back. ppt.

of science"). The panel majority has inaptly applied the "rational basis" criterion, for although it is surely rational for Congress to raise money to support the government, the diverted PTO fees are not used to support activities having any relation to the progress of science and the useful arts. Thus *United States Railroad Retirement Board v. Fritz*, 449 U.S. 166, 101 S.Ct. 453, 66 L.Ed.2d 368 (1980) does not support the diversion, for in that case the Court observed that Congress had not articulated its legislative purpose, whereas here the destination of the diverted PTO collections is plainly stated.

The government argues that its right to divert the PTO fee income is absolute, and is supported by the broad powers of Congress to tax and to spend. Mr. Figueroa responds that this diversion is no more than a direct tax on inventors, and violates the constitutional prohibition of direct taxes that are not apportioned. The Court of Federal Claims lumped all of the PTO collections together, and held that they are not a tax. A more rigorous analysis shows that the amount of the fees that are allocated to support PTO services are not an unapportioned tax; however, the amount that is diverted to support other government activity can readily be viewed as an unapportioned direct tax, and prohibited by Article I, section 9, clause 4 ("No Capitation, or other direct, tax shall be laid, unless in Proportion to the Census or Enumeration herein before directed to be taken.") (modified by the Sixteenth Amendment, authorizing the levy of income tax). As was explained in *Simmons v. United States*, 308 F.2d 160 (4th Cir.1962):

> A direct tax is a tax on real or personal property, imposed solely by reason of its being owned by

> the taxpayer. A tax on the income from such property, such as a tax on rents or the interest on bonds, is also considered a direct tax, being basically a tax upon the ownership of property. Yet, from the early days of the Republic, a tax upon the exercise of only some of the rights adhering to ownership, such as upon the use of property or upon its transfer, has been considered an indirect tax, not subject to the requirement of apportionment.

Id. at 166 (citations omitted). The federal government cannot assess an unapportioned tax on the ownership of property.

The panel majority finds that the PTO fees are not direct taxes but are excise taxes. I doubt that this is correct as a matter of law. In my view, however, the entire cost of government patent operations is relevant to whether the diversion is unconstitutional as an unapportioned direct tax.

Mr. Figueroa, an inventor, has expressed valid concern for the nation's prosperity and vigor as derived from advances in science and technology. He exhorts optimum support of the PTO's assignment, to implement the constitutional purpose. His constitutional arguments are not devoid of merit, and warrant deeper exploration than they have thus far received.

APPENDIX B — OPINION AND ORDER OF THE UNITED STATES COURT OF FEDERAL CLAIMS FILED JUNE 28, 2005

IN THE UNITED STATES COURT OF FEDERAL CLAIMS

No. 01-457C

(Filed June 28, 2005)

Illegal exaction; Cross-motions for summary judgment; Intellectual Property clause, U.S. CONST. ART. I, § 8, cl. 8; Patents; Patent fees; Necessary and Proper Clause; Rational basis standard; Appropriations

MIGUEL FIGUEROA,

Plaintiff,

v.

THE UNITED STATES,

Defendant.

OPINION AND ORDER

Futey, *Judge.*

Plaintiff, an inventor who applied for a patent,[1] filed a complaint under the Tucker Act, 28 U.S.C. § 1491, against the United States on August 7, 2001, alleging that Congress' practice of using money generated from patent application

1. Plaintiff filed his patent application on February 27, 2001, and he received Patent No. 6,484,923 on November 26, 2002. The invention was a hand-held flux and solder tool designed to form joints on copper pipes.

fees paid to the United States Patent and Trademark Office ("USPTO") for purposes other than supporting USPTO operations (1) violated the Intellectual Property Clause of the Constitution, (2) worked an unlawful taking, and (3) constituted an illegal direct tax. Plaintiff sought to certify a class of similarly situated plaintiffs and prayed that the court "[d]eclar[e] the past and continued diversion of patent fees" to be unconstitutional, enjoin any future diversions, and order the return of any diverted fees to USPTO or to plaintiff and other class members. Defendant moved to dismiss for lack of jurisdiction or, alternatively, for failure to state a claim upon which relief could be granted. The court dismissed plaintiff's direct tax claim for failing to state a claim, and granted summary judgment to defendant on the unlawful taking claim. *Figueroa v. United States,* 57 Fed.Cl. 488, 503, 505 (2003). The court, however, construed plaintiff's first claim as an allegation of an illegal exaction over which it had jurisdiction. *Id.* at 495-96. The court then held that the introductory language of the Intellectual Property Clause substantively limited the power of Congress to legislate since patents can only be issued for useful inventions and that, therefore, plaintiff had stated a claim for which relief could be granted. *Id.* at 499, 500-01. The court held that it would review the illegal exaction claim to determine whether the diversion of patent fees to non-patent purposes was necessary and proper to the promotion of the progress of the useful arts, but would do so with substantial deference to the authority of Congress in that sphere. *Id.* at 501. In addition, the court held that only those persons who paid patent fees since August 8, 1995 would potentially have standing because the Tucker Act's six-year statute of limitations, 28 U.S.C.

§ 2501, is a jurisdictional requirement that must be construed strictly. *Id.* at 493, 495.

Thereafter, the parties filed cross-motions for summary judgment on the illegal exaction claim, and the American Intellectual Property Law Association submitted an *amicus* brief. Plaintiff also filed an alternative motion for additional discovery. The court heard oral argument on the summary judgment motions on May 13, 2005.

Factual Background

Under the Patent Act of 1952, Pub.L. No. 82-593, 66 Stat. 792 (1952) (codified as amended at 35 U.S.C. § 1, *et seq.*), Congress has established USPTO as an agency within the Department of Commerce and subject to the policy direction of the Secretary of Commerce, but otherwise independent regarding its own operational management and administration, budget allocations and expenditures, personnel decisions and processes, and procurement. 35 U.S.C. § 1(a). USPTO is "responsible for the granting and issuing of patents and the registration of trademarks." § 2(a)(1).

A filing fee must accompany every patent application, and failure to submit the fee in a timely manner will be grounds for USPTO to regard the application as abandoned. See 35 U.S.C. § 111(a). Congress has required that the USPTO Director assess application fees according to a schedule and has also required the assessment of patent maintenance fees at certain times after the grant of a patent application. § 41. Failure to pay the required maintenance

fee in a timely manner will result in the expiration of the patent. § 41(b). "All fees for services performed by or materials furnished by" USPTO and "all appropriations for defraying the costs of the activities of" USPTO "will be credited to the Patent and Trademark Office Appropriation Account in the Treasury of the United States."[2] § 42. "To the extent and in the amounts provided in advance in appropriations Acts, fees authorized ... to be charged or established by the Director shall be collected by and shall be available to the Director to carry out the activities of the Patent and Trademark Office." § 42(c).

During the first part of the Twentieth Century, USPTO was virtually self-supporting.[3] As time went on, fee receipts, as a percentage of operating costs declined substantially until, by 1982, fees offset only 23 percent of operating expenses.[4] Beginning in 1982, Congress authorized USPTO to recover operating costs from fee income and allowed it to retain the fee income as offsetting collections.[5] By fiscal year 1991 ("FY-91"), USPTO was essentially funded entirely by user fees.[6]

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2. "An appropriation is *per se* nothing more than the legislative authorization prescribed by the Constitution that money may be paid out at the Treasury." *Campagna v. United States*, 26 Ct.Cl. 316, 317, 1800 WL 1775 (1891); see also Black's Law Dictionary 110 (8th ed.2004) (Appropriation is "[a] legislative body's act of setting aside a sum of money for a public purpose;" and "[t]he sum of money so voted.").

3. Plaintiff's Appendix ("Pl.'s App.") at 16 (Aug. 20, 2004).

4. *Id.*

5. *Id.*

6. *Id.* at 10.

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In 1990, Congress passed the Omnibus Budget Reconciliation Act ("OBRA"), Pub.L. No. 101-508, 104 Stat. 1388 (1990), which was intended to limit increases in discretionary spending and reduction in receipts to the Federal Government. Section 10101 provided that USPTO would collect patent application fee surcharges that would be credited to a particular Treasury account. Although Congress apparently intended for USPTO to continue to fund most of its operations through the fees that it collected, see, e.g., H.R. REP. NO. 101-881 at 159-60 (1990), U.S.Code Cong. & Admin.News 1990, pp. 2017, 2167-68; H.R. REP. NO. 102-382 at 7-8, Congress has not given up its control of the USPTO budget, and there is no dispute that Congress has not appropriated to USPTO for its operations all of the fees USPTO has collected. How much money is involved is a matter of dispute, as is whether the money previously collected is still available for appropriation.

Plaintiff complains specifically that Congress diverted a total of approximately $233.5 million in patent fees for purposes of deficit reduction over the period of FY-92 through FY-98.[7] Plaintiff also alleges that, in FY-99, Congress rescinded, for purposes of deficit reduction, USPTO's authority to spend $71 million in patent fees, and rescinded authority in following years to spend an additional total of $5 million in patent fees to support the United States steel industry, to provide tuition support for District of Columbia residents, and for homeland security.[8] Lastly, plaintiff alleges

7. Plaintiff's Motion ("Pl.'s Mot.") at 6, 22.

8. *Id.* at 7, 10 (citing Pub.L. No. 105-277, 112 Stat. 2681 (1998); Pub.L. No. 106-51, 113 Stat. 252 (1999); Pub.L. No. 106-113, 113 Stat. 1501 (1999); Pub.L. No. 107-206, 116 Stat. 820(2002)).

that Congress has continued to divert[9] patent fees for purposes of deficit reduction, although plaintiff has not been able to provide a specific sum.[10] An examination of the motions, however, shows that this latter amount could be at least $113 million,[11] making the total amount of patent fee diversions at least $422.5 million.

Plaintiff has alleged that, from FY-91 through FY-00, 2.2 million patent applications were filed with USPTO while 1.2 million patents were issued.[12] In addition, in FY-90, 174,711 patent applications were filed. 104,179 patent applications were pending that same fiscal year. In FY-00, the numbers had grown so that 311,807 patent applications were filed that year and 308,056 were pending. Average patent pendency in FY-90 was 20 months, but had increased to 25 months by FY-00. Plaintiff has alleged that Congress' failure to appropriate to USPTO the full amount that USPTO has collected in fees is, at least partly, responsible for the lengthened pendency period and application backlogs.

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9. For ease of reference, the court refers collectively to all these diversions and rescissions as "diversions."

10. See Summary Judgment Oral Argument Transcript ("Summ. J. Tr.") at 29.

11. Pl.'s Mot. at 22-23.

12. From FY-91 through FY-04, 3,710,262 patent applications were filed while 2,024,155 patents were issued. See USPTO's annual reports, *available at* http://www.uspto.gov/web/offices/com/annual/index.html; see also Defendant's Appendix ("Def.'s App.") at Tab 49 (Nov. 8, 2004).

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The language of the appropriation paragraph for USPTO for FY-04 is fairly typical of the language Congress has used since FY-91[13]:

> For necessary expenses of the United States Patent and Trademark Office provided for by law, including defense of suits . . . , $1,222,460,000, *to remain available until expended,* which amount shall be derived from offsetting collections assessed and collected pursuant to 15 U.S.C. [§]1113 and 35 U.S.C. [§]41 and 376, and shall be retained and used for necessary expenses in this appropriation: Provided, That the sum herein appropriated from the general fund shall be reduced as such offsetting collections are received during fiscal year 2004, so as to result in a fiscal year 2004 appropriation from the general fund estimated at $0: Provided further, That during fiscal year 2004, should the total amount of offsetting fee collections be less than $1,222,460,000, the total amounts available to the

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13. See Pub.L. No. 101-515, 104 Stat. 2101 (1990); Pub.L. No. 102-140, 105 Stat. 782 (1991); Pub.L. No. 102-395, 106 Stat. 1828 (1992); Pub.L. No. 103-121, 107 Stat. 1153 (1993); Pub.L. No. 103-179, 107 Stat.2040 (1993); Pub.L. No. 103-317, 108 Stat. 1724 (1994); Pub.L. No. 104-134, 110 Stat. 1321 (1996); Pub.L. No. 104-208, 110 Stat. 3009 (1996); Pub.L. No. 105-119, 111 Stat. 2440 (1997); Pub.L. No. 105-277, 112 Stat. 2681 (1998); Pub.L. No. 106-113, 113 Stat. 1501 (1999); Pub.L. No. 106-553, 114 Stat. 2762 (2000); Pub.L. No. 107-77, 115 Stat. 748 (2001); Pub.L. No. 108-7, 117 Stat. 11 (2003); Pub.L. No. 108-199, 118 Stat. 3 (2004).

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> United States Patent and Trademark Office shall be reduced accordingly . . . .

Pub.L. No. 108-199, 118 Stat. 3 (2004) (emphasis added).[14]

"Appropriations are made for one year only," unless an appropriation act specifically states that a particular sum of money "shall be available until expended." *Norcross v. United States,* 142 Ct.Cl. 763, 766, 1958 WL 7367 (1958); see also *Am. Fed'n of Gov't Employees, AFL-CIO, Local 1647 v. Fed. Labor Relations Auth.,* 388 F.3d 405, 409 (3d Cir.2004) (Congress may authorize appropriations that continue for more than one year). Each annual USPTO appropriation from FY-91 to the present contains language stating that the appropriated amount would "remain available until expended," meaning that such money can be used in subsequent fiscal years to cover expenses unless Congress sets a particular spending ceiling. See, e.g., Pub.L. No. 106-113, 113 Stat. 1501 (1999) (setting $755 million as an upper limit for FY-00 and rolling over to subsequent fiscal years any excess amount).

The one major difference between the FY-04 text, *supra,* and that from other years is that, from FY-91 through FY-97, none of the appropriation language contained the formula requiring that a certain sum "shall be derived from offsetting

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14. 15 U.S.C. § 1113 and 35 U.S.C. §§ 41 and 376 relate, respectively, to fees that USPTO may assess for trademark services, patent services, and under the Patent Cooperation Treaty.

collections assessed and collected" or that the sum "appropriated from the general fund shall be reduced as such offsetting collections are received during [the] fiscal year . . . so as to result in a final fiscal year . . . appropriation from the general fund estimated at $0." That type of mandate appears only since FY-98.

Examining the evidence[15] on USPTO finances produces the following results:

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15. See Def.'s Supplemental App. at Tab 5 (Feb. 25, 2005); Def.'s App. at Tab 15 (Nov. 8, 2004); Pl.'s App. at 10, 48, 88, 111, 150 (Aug. 20, 2004); see also the appropriation acts cited *supra* in note 13; USPTO annual fiscal year reports, *available at* http://www.uspto.gov/web/offices/com/annual/index.html.

	Congressional Appropriations (Millions)	Total USPTO Program Costs (Millions)	Total Patent Fees Collected (Millions)	Total Fees Collected for All Services (Patents, Trademarks, etc.) (Millions)
FY-1991	$ 91.0	$ 358.1	$ 291.4	$ 344.3
FY-1992	$ 88.4	$ 422.4	$ 363.5	$ 427.8
FY-1993	$ 86.7	$ 471.0	$ 423.4	$ 498.4
FY-1994	$ 103.0[16]	$ 469.1	$ 472.3	$ 541.6
FY-1995	$ 83.0	$ 502.3	$ 557.4	$ 646.2
FY-1996	$ 82.3	$ 553.7	$ 571.7	$ 665.2
FY-1997	$ 61.3	$ 619.9	$ 652.0	$ 755.5
FY-1998	$ 691.0	$ 750.6	$ 775.1	$ 890.5

16. The original $88.3 million appropriation was increased. See Pub.L. No. 103-121, 107 Stat. 1153 (1993); see also Pub.L. No. 103-179, 107 Stat.2040 (1993).

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FY-1999	$ 643.0	$ 861.8	$ 805.0	$ 909.3
FY-2000	$ 755.0	$ 911.3	$ 817.4	$ 956.5
FY-2001	$ 783.8	$1,016.6	$ 859.0	$1,040.2
FY-2002	$ 843.7	$1,161.0	$ 910.1	$1,061.4
FY-2003	$1,015.2	$1,206.1	$1,004.5	$1,162.3
FY-2004	$1,222.5	$1,289.2	$1,070.1	$1,239.0
TOTALS	**$6,549.9**	**$10,593.1**	**$9,572.9**	**$11,138.2**

In short, from FY-91, when plaintiff alleges that the diversions began,[17] through FY-04, USPTO has taken in approximately $11.1 billion in fees for patent, trademark, and miscellaneous services, while USPTO's operational expenses have cost the United States approximately $10.6 billion. USPTO, thus, collected approximately $545.1 million more in fees than it spent on operations over the previous fourteen fiscal years, an amount equal to approximately 4.9 percent of its total fee income. The $422.5 million in diversions about which plaintiff specifically complains represent approximately 4.4 percent of the total patent fees, and approximately 3.8 percent of the total fees for all services, that USPTO collected from FY-91 through FY-04.

When reviewing these figures, one must bear in mind that patent fees generally comprise approximately 86 percent of total USPTO fee income, with fees for trademark services and miscellaneous services making up the difference. In addition, the congressional appropriations cover all USPTO expenses, including its trademark operations and are not limited just to patent expenses. Nevertheless, the figures provide a useful tool for the court's analysis.

The heart of plaintiff's argument is that Congress' diversion of 4.4 percent of the patent fees to non-patent purposes is unconstitutional and constitutes an illegal exaction. In fact, plaintiff argues, the various diversions interfere with USPTO's performance of its critical functions and burden inventors with costs unrelated to securing their patent rights and, thus, are not rationally related to promoting the progress of the useful arts, as required by the Constitution.

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17. Amended Complaint ("Am.Compl.") ¶ 3.

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Plaintiff cites no authority anywhere in his pleadings to support his argument that Congress' budget practices are unconstitutional, other than the single case of *Boyd*[18] *v. United States,* 116 U.S. 616, 6 S.Ct. 524, 29 L.Ed. 746 (1886), from which plaintiff draws the following quote: "[I]llegitimate and unconstitutional practices get their first footing ... by silent approaches and slight deviations from legal modes of procedure."[19]

In its cross-motion for summary judgment, defendant asserts, as a general proposition, that the legislation about which plaintiff complains is within Congress' power under the Necessary and Proper Clause in regards to the patent system, the spending power, and also the Commerce Clause.

In particular, defendant first contends that Congress has not permanently withheld, rescinded, or otherwise diverted the patent fees since Congress possesses the inherent power to decide to appropriate the full amount of collected, but unappropriated, fees to USPTO.

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18. At oral argument, plaintiff cited the case of "Boyden" without providing further identifying information. Summ. J. Tr. at 7. Since no case of that name appears in any of the motions, and since the only case the court was able to find sharing that name and dealing with patent fees was *Boyden v. Comm'r of Patents,* 441 F.2d 1041 (D.C.Cir.1971), which held that patent fees may not be waived for reasons of indigence, the court believes that plaintiff misspoke and meant the case that he had quoted in his motion, *i.e., Boyd v. United States,* 116 U.S. 616, 6 S.Ct. 524, 29 L.Ed. 746 (1886).

19. Pl.'s Mot. at 20 (quoting *Boyd,* 116 U.S. at 636, 6 S.Ct. 524). The actual page number of the *Boyd* quote in the United States Reports is 635.

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Second, defendant argues that Congress is within its Article I powers in deciding how to appropriate patent fees because it is selecting the policy that best effectuates the constitutional aim by rationally managing the patent system it has created. For one thing, patent fee and appropriation legislation is a necessary and proper means of executing the patent power. Congress' only constitutional obligation is to create a patent system, and it has done so by designing a regime where one set of standards governs the requirements of patentability, while the other set of rules governs the patent application process. Defendant also notes that there is no requirement at all that USPTO even exist. Additionally, defendant asserts that the preamble to the Intellectual Property Clause has no application to the procedural requirements for obtaining a patent but, if it has any application at all, it is merely for the requirements of patentability that encourage innovation. Instead, defendant insists that the proper inquiry is whether the patent fee legislation is conducive to and plainly adopted to serve congressional power to grant patent rights. Having chosen to create USPTO, Congress may also choose how to fund it.

Third, defendant asserts that the Government incurs other USPTO-related costs, such as pension and health insurance benefits, and support expenses for work done by other agencies in support of the USPTO mission, for which the Government pays with funds other than those obligated specifically to USPTO, costs that defendant's expert, in deposition testimony, has estimated to total approximately $3.02 billion since 1971 for health insurance and retirement alone.

Fourth, an applicant's payment of the patent application fee, according to defendant, functions as a waiver of a claim for unlawful exaction since payment of the fee satisfies a condition for application.

Fifth, Congress' powers to regulate commerce and to spend money for the general welfare provide independent grounds for patent fee legislation.

Lastly, defendant declares that Congress has the undoubted authority to oversee the performance of Executive Branch agencies, and it is not for the courts to instruct it how to oversee its creations.

In his reply, plaintiff first avers that the doctrine of the "law of the case" precludes introduction of defendant's Commerce Clause and General Welfare Clause arguments based on the court's previous ruling, *Figueroa,* 57 Fed.Cl. at 501, that it would determine whether the diversion of patent fees to non-patent purposes was necessary and proper to the promotion of the progress of the useful arts. Then, plaintiff argues that, even if the court considered defendant's alternative arguments, they should also fail, since Congress may not do indirectly what the Constitution expressly prohibits.

Second, plaintiff argues that payment of a fee does not constitute a waiver of any right to challenge that fee on the grounds of illegal exaction. Lastly, plaintiff asserts that defendant's description of the rescission of patent fees as "temporary" is a charade.

Alternatively, plaintiff has moved for additional discovery, in the event that the court accepts defendant's argument that Government payments from the general Treasury to cover unfunded USPTO retirement, health, and life insurance benefit costs can offset diversions and rescissions of patent fees. Such additional discovery would be needed, plaintiff asserts, because the first expert deposed by the parties in discovery claimed to have used a "head count ratio" to calculate costs, but later admitted it was actually a full-time equivalent count. The discrepancy between the two counting methods would be material, in plaintiff's view, if the court allows this argument, necessitating further discovery.

For its part, defendant replies that plaintiff's alternative motion for additional discovery is without merit, untimely, and unfair because plaintiff already had discovery on the subject of this motion. Moreover, defendant argues that plaintiff has already admitted to being satisfied with the facts already available on the cost question since plaintiff proposed it himself in his proposed findings of uncontroverted facts. Finally, defendant argues that plaintiff has already had two opportunities to depose the expert on this issue and failed to pursue that possibility.

The American Intellectual Property Law Association ("AIPLA") submitted an *amicus* brief in which it states that it takes no position on plaintiff's request for relief, the question of liability, or the issue of whether the budget legislation that diverts patent fees is unconstitutional. Instead, AIPLA only asks that the court hold that the fee diversion does not promote the progress of useful arts. *Amicus* avers

that the patent system of the United States is an engine for economic growth, but argues that diversion of funds leads to increased burdens on USPTO and decreased patent quality. Like plaintiff, *amicus* relies on virtually no authority to supports its basic arguments, except for *Eldred v. Ashcroft,* 537 U.S. 186, 123 S.Ct. 769, 154 L.Ed.2d 683 (2003), and *Graham v. John Deere Co. of Kan. City,* 383 U.S. 1, 5, 86 S.Ct. 684, 15 L.Ed.2d 545 (1966), both of which *amicus* cites in passing in a footnote for the general proposition that the Constitution requires Congress, in enacting intellectual property legislation, to create a system that promotes the progress of science and the useful arts.

Discussion

Both parties have moved for summary judgment contending that there are no genuine issues of material fact and each moving party is entitled to judgment as a matter of law. RCFC 56(c); *Anderson v. Liberty Lobby, Inc.,* 477 U.S. 242, 247, 106 S.Ct. 2505, 91 L.Ed.2d 202 (1986); *Jay v. Sec'y, DHHS,* 998 F.2d 979, 982 (Fed.Cir.1993). A fact is material if it might significantly affect the outcome of the suit under the governing law. *Anderson,* 477 U.S. at 248, 106 S.Ct. 2505. The party moving for summary judgment bears the initial burden of demonstrating the absence of any genuine issues of material fact. *Celotex Corp. v. Catrett,* 477 U.S. 317, 325, 106 S.Ct. 2548, 91 L.Ed.2d 265 (1986). If the moving party demonstrates an absence of a genuine issue of material fact, the burden then shifts to the non-moving party to show that a genuine issue exists. *Sweats Fashions, Inc. v. Pannill Knitting Co., Inc.,* 833 F.2d 1560, 1563 (Fed.Cir.1987). Alternatively, if the moving party can show there is an

absence of evidence to support the non-moving party's case, then the burden shifts to the non-moving party to proffer such evidence. *Celotex,* 477 U.S. at 325, 106 S.Ct. 2548. The court must resolve any doubts about factual issues in favor of the party opposing summary judgment, *Litton Indus. Prods., Inc. v. Solid State Sys. Corp.,* 755 F.2d 158, 163 (Fed.Cir.1985), to whom the benefits of all favorable inferences and presumptions run. *H.F. Allen Orchards v. United States,* 749 F.2d 1571, 1574 (Fed.Cir.1984).

The fact that both parties have moved for summary judgment does not relieve the court of its responsibility to determine the appropriateness of summary disposition. *Prineville Sawmill Co., Inc. v. United States,* 859 F.2d 905, 911 (Fed.Cir.1988) (citing *Mingus Constructors, Inc. v. United States,* 812 F.2d 1387, 1390 (Fed.Cir.1987)). A cross-motion is a party's claim that it alone is entitled to summary judgment. *A Olympic Forwarder, Inc. v. United States,* 33 Fed.Cl. 514, 518 (1995). It, therefore, does not follow that if one motion is rejected, the other is necessarily supported. *Id.* Rather, the court must evaluate each party's motion on its own merits and resolve all reasonable inferences against the party whose motion is under consideration. *Id.* (citing *Corman v. United States,* 26 Cl.Ct. 1011, 1014 (1992)).

The parties agree that Congress has not permitted USPTO to spend as great a sum of money for its operations as it has collected in fees, but differ as to the exact nature of the diversions of those fees to other purposes. Defendant argues that any diversion of fees is an accounting exercise so any diversions are only "hypothetical," and that any rescission of budget authority was only temporary and *de*

minimis. Plaintiff counters that the diversions of fees have been substantial and are permanent. For the purposes of this analysis, this opinion will construe the doubts in plaintiff's favor by assuming that the diversions are permanent and substantial.

1. Threshold Issues

a. Illegal Exaction

Defendant has argued that the payment of patent application and maintenance fees is a condition, the satisfaction of which is necessary to receive the benefit sought, and that voluntary payment of the fees acts as a waiver on any claims that the payor might have. The only case law that defendant cites is this court's earlier holding, *Figueroa*, 57 Fed.Cl. at 502, 505, that a patent-holder must pay fees as a condition of maintaining his patent and that the Government did not hold these fees in trust for the payor.

The jurisdiction of this court under the Tucker Act includes illegal exaction claims, which are those where the claimant seeks the return of all or part of a sum of money he has been improperly required to pay by the Government in contravention of the Constitution, a statute, or a regulation. See *Ont. Power Generation, Inc. v. United States*, 369 F.3d 1298, 1301 (Fed.Cir.2004) (citing *Eastport S.S. Corp. v. United States*, 178 Ct.Cl. 599, 605-06, 372 F.2d 1002 (1967)); see also *Aerolineas Argentinas v. United States*, 77 F.3d 1564, 1572-73 (Fed.Cir.1996).

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Defendant cites no authority for its argument that contradicts the cited cases. In addition, defendant misconstrues the court's earlier holding since the language in the earlier ruling that defendant cites is related to the court's examination of plaintiff's earlier Fifth Amendment takings claim and the nature of the property interest that was allegedly taken. The court's discussion of constructive trusts has no application to the question of whether the Government improperly required plaintiff to pay a fee in violation of the Constitution, the law, or regulations. Therefore, the court rejects this argument.

b. Injunctive Relief

The Tucker Act defines the jurisdiction of the Court of Federal Claims and grants it jurisdiction to render judgment upon any claim against the United States founded upon the Constitution, any Act of Congress, any regulation of an executive department, or upon any express or implied contract with the United States, or for liquidated or unliquidated damages in cases not sounding in tort. 28 U.S.C. § 1491(a)(1). The courts have interpreted that statutory language to require "that a plaintiff seeking to invoke the court's jurisdiction must present a claim for 'actual, presently due money damages from the United States.' " *Nat'l Air Traffic Controllers Ass'n v. United States,* 160 F.3d 714, 716 (Fed.Cir.1998) (quoting *United States v. King,* 395 U.S. 1, 3, 89 S.Ct. 1501, 23 L.Ed.2d 52 (1969)). The court has limited power to grant equitable relief ancillary to claims for monetary relief over which the court has jurisdiction under specific statutory exceptions, *i.e.,* back pay cases and bid protests. *Id.* (citing 28 U.S.C. §§ 1491(a)(2), (b)(2)). The

court, however, lacks jurisdiction to grant equitable relief when it is unrelated to a claim for monetary relief pending before the court. *Id.* (citing *Katz v. Cisneros,* 16 F.3d 1204, 1208 (Fed.Cir.1994)).

The Constitution, furthermore, mandates that "No Money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law." U.S. CONST. art. I, § 9, cl. 7. In addition, federal courts may not order the obligation of funds for which there is no appropriation. *Rochester Pure Waters Dist. v. E.P.A.*, 960 F.2d 180, 184 (D.C.Cir.1992) (citations omitted).

In his prayer for relief, plaintiff requested the court to "[d]eclar[e] the past and continued diversion of patent fees" to be unconstitutional, enjoin any future diversions, and order the return of any diverted fees to USPTO or to plaintiff and other class members. Given the limited power of the court to order injunctive relief, and the court's complete lack of authority to order Congress to spend money, the potential relief that the court may grant potential plaintiffs is limited to ruling on the constitutionality of the diversions and ordering the return to the payors of any fees that were illegally exacted.

c. Law of the Case

Plaintiff vigorously opposes any presentation by defendant of any theories to justify the diversion of fees other than that they are valid under the Necessary and Proper Clause of the Constitution. Plaintiff claims that using any alternate theories would violate the doctrine of the "law of

the case" since the court already held in its prior order, *Figueroa*, 57 Fed.Cl. at 501, that its role in examining plaintiff's illegal exaction claim in further proceedings would be "limited to discerning if Congress' legislation . . . was necessary and proper to achieving its constitutional end of 'promot[ing] the Progress of . . . useful Arts.' "

The "law of the case" is a judicially created doctrine, the purposes of which are to prevent courts from re-litigating previously decided issues, and to ensure that lower courts adhere to the decisions of higher, appellate courts. *Gould, Inc. v. United States*, 67 F.3d 925, 930 (Fed.Cir.1995). The doctrine requires a court to follow the previous decision on a particular question during the case because a decided question should not be subject to continued argument. *Exxon Corp. v. United States*, 931 F.2d 874, 877 (Fed.Cir.1991) (quoting *Jamesbury Corp. v. Litton Indus. Prod., Inc.*, 839 F.2d 1544, 1550 (Fed.Cir.1988)). Since a trial court has the power to reconsider its decisions until judgment is entered, however, the "law of the case" merely requires a trial court to follow the rulings of an appellate court, and does not limit the trial court on issues not actually considered by an appellate court. *Exxon*, 931 F.2d at 877.

Plaintiff has failed to define the "law of the case" as limited to the adherence by a trial court to the decisions of an appellate court, asserting a much broader principle that courts "should not reopen what has been decided." At oral argument, however, plaintiff conceded that the court has the power to reconsider its decisions until the entry of judgment.[20]

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20. Summ. J. Tr. at 12.

Moreover, the court's earlier opinion did not consider any legal theories other than the Necessary and Proper Clause, so the court's holding is not, by its plain language, necessarily exclusive of other theories. Thus, the court has the power to consider alternate constitutional theories besides the Necessary and Proper Clause as bases for congressional action under the Intellectual Property Clause although, as will be seen *infra,* there is no need to do so.

d. Mootness

Defendant argues, in effect, that part of plaintiff's claim is moot since the Office of Management and Budget and the United States Department of the Treasury have "restored" certain diverted fees to USPTO's specially-dedicated Treasury account.[21] That restoration, however, does not aid defendant.

A defendant's "voluntary cessation of a challenged practice does not deprive a federal court of its power to determine the legality of the practice" since courts would

21. At oral argument, plaintiff's counsel, while stopping short of alleging bad faith, insisted that the Government was incorrect in stating that the money had been returned to the USPTO account, arguing instead, "The money is not there. It's in a computer database." Summ. J. Tr. at 70. The law presumes that Government officials "perform their duties correctly, fairly, in good faith, and in accordance with law and governing regulations," and this legal presumption is "valid and binding" unless the party challenging it can rebut it with "well-nigh irrefragable proof." *Schism v. United States,* 316 F.3d 1259, 1302 (Fed.Cir.2002) (*en banc*) (quoting *Alaska Airlines, Inc. v. Johnson,* 8 F.3d 791, 795 (Fed.Cir.1993); *Lachance v. White,* 174 F.3d 1378, 1381 (Fed.Cir.1999)). Plaintiff has not provided such proof.

otherwise find themselves forced to leave "[t]he defendant . . . free to return to his old ways." *Friends of the Earth, Inc. v. Laidlaw Envtl. Servs., Inc.*, 528 U.S. 167, 189, 120 S.Ct. 693, 145 L.Ed.2d 610 (2000) (citations omitted). Thus, a case becomes moot only "if subsequent events ma[k]e it absolutely clear that the allegedly wrongful behavior could not reasonably be expected to recur." *Id.* (quoting *United States v. Concentrated Phosphate Export Ass'n*, 393 U.S. 199, 203, 89 S.Ct. 361, 21 L.Ed.2d 344 (1968)). A defendant claiming that its voluntary compliance moots a case bears the formidable burden of showing that the allegedly wrongful behavior could not reasonably be expected to start up again. *Id.*

Defendant has presented no evidence that Congress would be unable to repeat the diversions, if it chose to do so. Therefore, for the purposes of deciding the motions presently before the court, the question of whether or not diverted fees have been restored to the USPTO account is irrelevant.

2. Intellectual Property Clause

Patents entitle the patentees to exclude others "from making, using, offering for sale, or selling an invention throughout the United States." 35 U.S.C. § 154(a)(1). The right to exclude is meant to encourage "investment-based risk" and is the "fundamental purpose of the patent grant." *Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 599 (Fed.Cir.1985); see also *Mazer v. Stein*, 347 U.S. 201, 219, 74 S.Ct. 460, 98 L.Ed. 630 (1954) (Economic philosophy behind Intellectual Property Clause is that encouraging "individual effort by personal gain is the best way to advance

public welfare through the talents of authors and inventors in 'Science and useful Arts.' ").

The word "patent" derives from the phrase "letters patent," which were public grants under English law of some sort of benefit by the sovereign, as a matter of royal prerogative, to an individual, and which often took the form of gifts of commodities monopolies to court favorites. See *Graham,* 383 U.S. at 5, 86 S.Ct. 684; see also Edward C. Walterscheid, *To Promote the Progress of Science and Useful Arts: The Background and Origin of the Intellectual Property Clause of the United States Constitution,* 2 J. Intell. PropP. L. 1, 10-11 (1994); Black's Law Dictionary at 925, 1156 (8th ed.2004). Parliament acted to curtail the practice of granting monopolies by passing the Statute of Monopolies in 1623, which banned all monopolies and letters patent, except those granting monopolies "of the sole working or making . . . of new manufactures," *i.e.,* inventions. Walterscheid at 12-14.

Prior to the adoption of the Constitution, no national patent law had existed in the United States under the Articles of Confederation, and most of the states likewise did not have general patent statutes. See Walterscheid at 16-21. Concern for protecting intellectual property was an issue of "inferior moment" at the Constitutional Convention and, in fact, a discussion of the issue of intellectual property occupies only one paragraph[22] of The Federalist in the chapter on the

22. "The utility of this power [to promote the progress of science and useful arts] will scarcely be questioned. The copyright of authors has been solemnly adjudged, in Great Britain, to be a (Cont'd)

miscellaneous powers of the central government. Walterscheid at 24; The Federalist No. 43 (James Madison). Nevertheless, the delegates decided that the new government should have the power to regulate intellectual property and, mindful of the English experience with abuse of the royal patent prerogative and hesitant to countenance an unlimited national power to create monopoly rights, inserted language that allowed the federal government to grant monopolies only in certain types of cases, *i.e.*, for inventions, as had been the case with the English Statute of Monopolies. See *Graham*, 383 U.S. at 5, 86 S.Ct. 684; see also Walterscheid at 37-38. The result was the Intellectual Property Clause, covering both patents and copyrights, and stating: "The Congress shall have Power . . . [t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." U.S. Const. art. I, § 8, cl. 8. The Intellectual Property Clause is unique in that it is the only one of the Enumerated Powers where the drafters mandated "a specific mode of accomplishing the particular authority granted," *i.e.*, "by securing exclusive rights for limited times to authors and inventors in their respective writings and discoveries." Walterscheid at 33.

(Cont'd)
right of common law. The right to useful inventions seems with equal reason to belong to the inventors. The public good fully coincides in both cases with the claims of individuals. The States cannot separately make effectual provisions for either of the cases, and most of them have anticipated the decision of this point, by laws passed at the instance of Congress." The Federalist No. 43 (James Madison).

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Congress enacted the first national patent law, the Patent Act of 1790, 1 Stat. 110, during the First Congress. *Graham*, 383 U.S. at 6, 86 S.Ct. 684. That law created a three-person patent agency housed in the Department of State, and known as the "Commissioners for the Promotion of Useful Arts." *Id.* at 6-7, 86 S.Ct. 684. The commissioners were the Secretary of State, the Secretary of War, and the Attorney General, any two of whom together could issue a fourteen-year patent to any person who fashioned or discovered a novel invention. See *id.* Since the passage of the first Patent Act, Congress has amended it at least fifty times. *Id.* at 10, 86 S.Ct. 684.

Congress has broad discretion in determining how to implement the Intellectual Property Clause. See *Constant*, 848 F.2d at 1564. This is so because the powers of Congress in the field of intellectual property "are plenary for they stem directly from the Constitution." *Boyden v. Comm'r of Patents*, 441 F.2d 1041, 1043 (D.C.Cir.1971). With specific reference to patents, Congress has required that USPTO grant no patent unless an invention be useful, novel, and non-obvious. See 35 U.S.C. §§ 101-103; see also *Graham*, 383 U.S. at 14, 86 S.Ct. 684. Of these three elements, utility is perhaps the most important since "one may patent only that which is 'useful,' " and since utility has been a key concept in all American patent law since the passage of the first Patent Act. *Brenner v. Manson*, 383 U.S. 519, 528-29, 86 S.Ct. 1033, 16 L.Ed.2d 69 (1966). Indeed, utility is the only one of the three elements of patentability specifically mentioned in the constitutional text. See U.S. Const. art. I, § 8, cl. 8.

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Plaintiff's central point of argument is his claim that charging inventors fees that are not entirely used solely for the purpose of supporting the operations of the patent system is an irrational, unconstitutional burden on innovation that does not promote the progress of useful arts.[23] He cites, however, no case in support of this proposition.

The Constitution grants Congress the power "[t]o make all Laws which shall be necessary and proper for carrying into Execution" the enumerated powers of Article I, § 8, "and all other Powers vested by this Constitution in the Government of the United States, or in any Department or Officer thereof." U.S. Const. art. I, § 8, cl. 18. The Articles of Confederation had specifically precluded granting to the central government any power not expressly delegated by the states. *M'Culloch v. Maryland,* 4 Wheat. 316, 17 U.S. 316, 406, 4 L.Ed. 579 (1819); Arts. of Confederation art. II ("Each state retains its sovereignty, freedom, and independence, and every power, jurisdiction, and right, which is not by this Confederation *expressly* delegated to the United States, in Congress assembled." (emphasis added)). Unlike the Articles of Confederation, however, the Constitution does not prohibit Congress from exercising "incidental or implied powers," and does not use the word "expressly" when describing the delegation of powers to the federal government. *M'Culloch,* 17 U.S. at 406; U.S. Const. amend. X ("The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people.").

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23. Pl.'s Mot. at 14-15.

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"[T]he courts' role in judging whether Congress has exceeded its Article I powers is limited." *Mitchell Bros. Film Group v. Cinema Adult Theater,* 604 F.2d 852, 860 (5th Cir.1979). The Constitution, in fact, "does not profess to enumerate the means by which the powers it confers may be executed," but the powers given to the government "imply the ordinary means of [their] execution." *M'Culloch,* 17 U.S. at 408-09. "Within the limits of the constitutional grant, the Congress may, of course, implement the stated purpose of the Framers by selecting the policy which in its judgment best effectuates the constitutional aim. This is but a corollary to the grant to Congress of any Article I power." *Graham,* 383 U.S. at 6, 86 S.Ct. 684 (citing *Gibbons v. Ogden,* 9 Wheat. 1, 6 L.Ed. 23 (1824)). "[T]he Necessary and Proper Clause authorizes Congress, subject to other constraints imposed by the Constitution, to adopt measures that bear a rational connection to any of its enumerated powers." *United States v. Edgar,* 304 F.3d 1320, 1326 (11th Cir.2002); see also *United States v. Plotts,* 347 F.3d 873, 878 (10th Cir.2003); *United States v. Lue,* 134 F.3d 79, 84 (2d Cir.1998). To satisfy constitutional muster, Congress need not choose a particular form of legislation that is "absolutely necessary" to the exercise of an Enumerated Power because the legislation need only be "conducive" to the beneficial exercise of the Enumerated Power and "plainly adapted" to that purpose. See *Jinks v. Richland Co., S.C.,* 538 U.S. 456, 462, 123 S.Ct. 1667, 155 L.Ed.2d 631 (2003) (citing *M'Culloch,* 17 U.S. at 414-15, 417, 421); see also *Schnapper v. Foley,* 667 F.2d 102, 112 (D.C.Cir.1981) (quoting *Mitchell Bros. Film Group,* 604 F.2d at 860 (Congress does not exceed its power under Article I, § 8, cl. 18 as long as the means chosen are "appropriate" and "plainly adapted" to achieve a

constitutional end)); *Eldred*, 537 U.S. at 212, 123 S.Ct. 769 (to extent Congress enacts intellectual property rights at all, it must create a system that promotes the progress of science, but it is for Congress, not the courts, to determine how to meet the objectives of Article I, § 8, cl. 18).

Under these rules, the court must examine whether the legislation or regulation is appropriate and plainly adapted to achieve the constitutional goal of promoting the useful arts. In other words, the proper inquiry is whether the measure complained of is a rational exercise of the legislative authority under the Intellectual Property Clause. See *Eldred*, 537 U.S. at 204, 123 S.Ct. 769; see also Stephen Gardbaum, *Rethinking Constitutional Federalism*, 74 Tex. L. Rev. 795, 820 (1996) ("To the extent that modern courts ever acknowledge that Congress is exercising power granted by the Necessary and Proper Clause, they have translated [Chief Justice] Marshall's statements [in *M'Culloch v. Maryland*] on the meaning of 'necessary' and the congressional discretion on the degree of necessity into a rational basis test; namely, asking whether Congress' determination that the regulation in question will promote a legitimate federal end was one that could rationally be reached.").

Plaintiff agrees that rational basis is the appropriate standard of review; indeed, at oral argument, plaintiff's counsel discussed the power of Congress to divert fees solely in terms of its rationality, or alleged lack thereof, and did so eighteen separate times.[24] Although "courts have a

24. Summ. J. Tr. at 11, 13, 15, 21, 22-24, 26, 28, 30, 37-38, and 40.

constitutional duty to scrutinize congressional actions to ensure that Congress stays within its constitutionally enumerated powers," under the rational basis test, they must "discipline [their] scrutiny to ensure that [they] are about the business of judicial review and not the business of social policy." See *United States v. Kirk,* 105 F.3d 997, 999 (5th Cir.1997).

In the Equal Protection context, which provides useful analytical context, when a court employs the rational basis test, it examines whether a challenged law is "rationally related to legitimate governmental objectives." *Schweiker v. Wilson,* 450 U.S. 221, 230, 101 S.Ct. 1074, 67 L.Ed.2d 186 (1981). Under the rational basis test, a challenged law is presumed valid, and the party attacking the measure has the burden of proving that it is irrational. See *F.C.C. v. Beach Communications, Inc.,* 508 U.S. 307, 314-15, 113 S.Ct. 2096, 124 L.Ed.2d 211 (1993) (citations omitted).

The court notes that plaintiff's requested remedy puts him in an odd position with regard to his policy arguments. As plaintiff has asserted passionately in his motions and pleadings and at oral argument, the diversion of patent fees to non-patent purposes is allegedly unconstitutional, at least in part, because such diversion interferes with the ability of USPTO to discharge its responsibilities to issue patents in a timely way. Yet, plaintiff basically asks the Government to disgorge money in the form of refunds of fees exacted illegally when one might suppose that the superior policy outcome would be for Congress to decide on its own to return the diverted fund to USPTO's budget. Nevertheless, the court

will examine the rationality of Congress' funding of USPTO operations.

Boyd, the single case upon which plaintiff has built his argument in his brief, does not aid that argument much since it is not on point. It is also a case that has been largely overruled. See *Fisher v. United States*, 425 U.S. 391, 96 S.Ct. 1569, 48 L.Ed.2d 39 (1976). *Boyd* was a case in which a glass importer was accused of using false invoices to avoid customs duties. *Boyd*, 116 U.S. at 617, 6 S.Ct. 524. The Government seized thirty-five cases of plate glass and at trial, the prosecutor compelled the defendant to produce the invoice at issue. *Id.* at 618, 6 S.Ct. 524. Upon judgment of forfeiture, the importer appealed, arguing that the compulsory production of private papers to be used in evidence against him violated the Fourth Amendment as an unreasonable search and seizure. *Id.* The United States Supreme Court ("Supreme Court") agreed and remanded the case with an order for a new trial. *Id.* at 638, 6 S.Ct. 524. The case, however, had nothing to do with intellectual property.

During oral argument, plaintiff's counsel cited *United States v. Lopez*, 514 U.S. 549, 115 S.Ct. 1624, 131 L.Ed.2d 626 (1995), as supporting the argument that "there has to be some outer limit to what Congress can do."[25] *Lopez* concerned a high school student who was prosecuted under a federal statute that made it a crime knowingly to possess a firearm in a school zone. *Lopez*, 514 U.S. at 551, 115 S.Ct. 1624. Congress had determined that it could regulate such behavior under the Commerce Clause of the Constitution, but the

25. *Id.* at 10.

Supreme Court held that such a law exceeded the powers of Congress to regulate commerce since possession of a gun in a local school zone was in no sense an economic activity that might substantially affect any interstate commercial activity. *Id.* at 551, 567, 115 S.Ct. 1624. The Court was particularly concerned that the challenged law regulated behavior so far removed from commercial activity that Congress might be tempted to regulate activities left to the states under our federal system of government. See *id.* at 564, 115 S.Ct. 1624.

Also during oral argument, plaintiff's counsel cited *Eldred* as a good illustration of "the analysis that applies when evaluating what Congress' power is to enact laws under the intellectual property clause."[26] In *Eldred,* various parties, whose businesses depended on creative works for which copyright protection had expired, challenged legislation by which Congress had lengthened the term of copyrights so that they generally ran from the time of creation of the work until seventy years after the death of the author. *Eldred,* 537 U.S. at 193, 123 S.Ct. 769. The petitioners did not object to the lengthening of the copyright term, *per se,* but to the extension of the terms of existing copyrights. *Id.* The Supreme Court held that legislation to extend the terms of copyright validity, even when applied to existing copyrights, was rational and that the courts were "not at liberty to second-guess congressional determinations and policy judgments" of that order. *Id.* at 208, 123 S.Ct. 769. Since the policy judgments reflected in the act were of a kind that Congress

26. *Id.* at 8.

typically makes, it was appropriate for the courts to defer substantially to Congress. *Id.* at 205, 123 S.Ct. 769.

While both *Lopez* and *Eldred* certainly did discuss the limits of the power of Congress, neither case supports plaintiff's position.

Lopez was concerned with the tension inherent in the Commerce Clause between state and federal power and the risk that a broad reading of the Commerce Clause would swallow state sovereignty. The Intellectual Property Clause does not have those tensions since Congress has the exclusive power, based on an explicit constitutional grant of authority, to reward inventors and authors with monopoly rights in their works. *Eldred,* on the other hand, while implicitly finding, as the court earlier recognized, see *Figueroa,* 57 Fed.Cl. at 501 (citing *Eldred,* 537 U.S. at 210-15, 123 S.Ct. 769), a substantive limit in the preamble to the Intellectual Property Clause to the power of Congress, also was deferential to the power of Congress to make the policy decision necessary to manage the system that regulates intellectual property rights, *Eldred,* 537 U.S. at 212, 123 S.Ct. 769 (it is for Congress, not the courts, to determine how to meet the objectives of the Intellectual Property Clause) (citations omitted).

Significantly, as noted previously, plaintiff has not cited a single case to support its illegal exaction argument in its motion for summary judgment. Rather, plaintiff has cited numerous policy arguments, but intellectual property policy judgments, under *Eldred,* are vested in Congress, and courts must be deferential to Congress' exercise of its power in that sphere. Moreover, under the rational basis test, plaintiff has

the heavy burden of showing that USPTO appropriations legislation is neither appropriate nor plainly adapted to achieve the legitimate constitutional objective of promoting the useful arts, *i.e.*, that the legislation was not rationally related to that goal or was inappropriate to the end in view, and plaintiff has failed to do so.

Congressional budgeting can never be more than a guessing game since Congress generally appropriates funds at the beginning of the fiscal year during which they will be needed. Moreover, as plaintiff's counsel conceded at oral argument,[27] Congress has no duty or obligation to spend all the patent fees collected as soon as they are collected. In fact, since patent applications usually take months, if not several years to adjudicate, it would be absurd to require such an outcome since the work could well occur in another fiscal year.

Plaintiff's assertion, made with evocative imagery at oral argument, that the diversion of patent fees is "Queen Elizabeth with her nose under the tent,"[28] *i.e.*, the incipient resurrection of an arbitrary system of government-granted monopolies like that existing in Tudor England, is not supported by the evidence. As discussed *supra* in note 12, USPTO has issued more than 2 million patents since FY-91, and the requirements that a patentable invention be useful, novel, and non-obvious remain in the statutes, conforming to the constitutional command of the Intellectual Property Clause.

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27. *Id.* at 73.

28. *Id.* at 40.

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In sum, during the past fourteen fiscal years, USPTO has taken in billions of dollars cumulatively in fees and has provided billions of dollars worth of services, most of which involved issuing more than 2 million patents. USPTO appropriations have increased by a factor of thirteen during that timespan. Congress is, thus, funding USPTO operations, and funding them generously, with money assessed in the form of patent fees, although Congress has not dedicated all of the fees to that particular purpose, choosing instead to spend 4.4 percent of those fees on other priorities. Congress' determination of federal spending priorities and how the patent system fits into national economic development goals is an eminently rational exercise of its power.

Conclusion

Congress is entitled to great deference under the Necessary and Proper Clause when it legislates under its Intellectual Property power. Any intellectual property law Congress passes need only survive the limited scrutiny of the rational basis test as to whether it promotes the progress of science and the useful arts. Plaintiff may well be correct that the current patent fee regime is misguided and creates the wrong incentives, but such policy determinations are for Congress, and not the courts, to make. Plaintiff has not carried his burden of showing that Congress has behaved irrationally.

Having disposed of the case under the Intellectual Property Clause, the court need not reach defendant's Commerce Clause and General Welfare Clause arguments.

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Accordingly, plaintiff's motion for summary judgment on his illegal exaction claim is DENIED. Defendant's cross-motion for summary judgment on plaintiff's illegal exaction claim is GRANTED. Plaintiff's motion for class certification, which the court had stayed in an order dated October 7, 2003, is hereby MOOT.

In addition, since the court decides the illegal exaction claim on the merits based on the broad issue of constitutionality, the question of USPTO pension liabilities is MOOT, and plaintiff's alternative motion for additional discovery is, therefore, DENIED.

The Clerk of the Court shall enter judgment for defendant. No costs.

IT IS SO ORDERED.

BOHDAN A. FUTEY
Judge

APPENDIX C — OPINION AND ORDER OF THE UNITED STATES COURT OF FEDERAL CLAIMS FILED AUGUST 15, 2003

UNITED STATES COURT OF FEDERAL CLAIMS

No. 01-457C.

(Filed August 15, 2003)

Payment of patent fees; Statute of Limitations; Standing; Illegal exaction; Patents and Copyrights Clause, U.S. CONST. art. I, § 8, cl. 8; Direct Tax Clause, U.S. CONST. art. I, § 9, cl. 4; Takings; Cognizable property interest.

MIGUEL FIGUEROA,

Plaintiff,

v.

THE UNITED STATES,

Defendant.

OPINION and ORDER

FUTEY, Judge.

This case concerning the payment and allocation of patent fees is before the court on defendant's motion to dismiss for lack of subject matter jurisdiction or, in the alternative, for failure to state a claim upon which relief can

be granted. Defendant maintains that the court lacks jurisdiction over plaintiff's Patents and Copyrights Clause[1] (Patent Clause) claim because: (1) the phrase "[t]o promote the Progress of ... useful Arts" is not a substantive limit on Congress' power; (2) the Patent Clause "does not in any way confer a substantive right on any individual;"[2] and (3) the Patent Clause cannot be interpreted as money-mandating. Defendant also contends that plaintiff's Capitation or Direct Tax Clause[3] (Direct Tax Clause) claim should be dismissed because it does not mandate the payment of money. In addition, defendant avers that plaintiff's takings claim should be dismissed because unauthorized actions cannot form the basis of a takings claim, and plaintiff did not properly plead this claim in the alternative. Defendant also raises several standing arguments.

Relying heavily on *Longshore v. United States,* 77 F.3d 440 (Fed.Cir.), *cert. denied,* 519 U.S. 808, 117 S.Ct. 52, 136 L.Ed.2d 15 (1996), defendant maintains that plaintiff has failed to state a claim upon which relief may be granted.[4] As to plaintiff's Patent Clause claim, defendant reiterates many of the arguments it contended warranted dismissal on

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1. U.S. Const. art. I, § 8, cl. 8.

2. Defendant's Motion To Dismiss (Def.'s Mot. to Dismiss) at 23-24 (citing *Tape Indus. Ass'n of Am. v. Younger,* 316 F.Supp. 340, 346 (C.D.Cal.1970)).

3. U.S. Const. art. I, § 9, cl. 4.

4. Pursuant to the court's order of December 11, 2001, the issue of class certification was deferred until further order of the court.

jurisdictional grounds. Defendant also asserts that the Patent Clause does not limit Congress' authority to set patent fees. Further, defendant avers that plaintiff's takings claim should be dismissed for failure to state a claim because "the Takings Clause does not apply to legislation requiring the payment of money,"[5] and the patent fees are not held in trust on plaintiff's behalf. Defendant also advances two arguments that it purports dispose of both plaintiff's takings claim and Direct Tax Clause claim: (1) the patent fees are a condition to obtaining the privilege of a patent; and (2) there is no preexisting property interest independent of satisfying statutorily imposed conditions.

Factual Background

The United States Patent and Trademark Office (PTO), is responsible, *inter alia,* for examining patent applications and administering patents. The PTO is authorized to grant the protection of a patent when an applicant satisfies statutorily imposed tests and conditions, including the payment of appropriate fees. Throughout the life of the patent, the PTO also requires that patent holders periodically pay a maintenance fee.[6]

Pursuant to the Omnibus Budget Reconciliation Act of 1990 (OBRA 1990), Congress legislated increased surcharges to the fees charged by the PTO to patent applicants and

5. Def.'s Mot. to Dismiss at 38 (citing *Commonwealth Edison Co. v. United States,* 271 F.3d 1327, 1329 (Fed.Cir.2001)).

6. 37 C.F.R. §§ 1.20(e)-(i) (2003).

holders.[7] These surcharges remained in effect until the conclusion of fiscal year 1998. In the United States Patent and Trademark Office Reauthorization Act of 1999,[8] Congress discontinued the surcharges, but enacted increased patent fees approximately equivalent to the previous patent fees plus the surcharge. As a result of the patent fee increases, the PTO generated an annual surplus of funds. Plaintiff's complaint, in part, challenges the increased level at which the patent fees were set.

Plaintiff also challenges what it terms the "diversion" of patent fees. Beginning in fiscal year 1992, a gradually increasing amount of patent fees collected in one fiscal year were not appropriated for the PTO's use in the same fiscal year.[9] Plaintiff maintains that Congress withholds appropriating funds to the PTO in a given fiscal year in order to be able to spend an amount equivalent to that not appropriated to the PTO on unrelated government programs. Conversely, defendant avers that Congress has simply decided not to appropriate every dollar available to the PTO in the same year that it was collected. Defendant also contends that "all surcharges collected by the [PTO in a given

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7. *Omnibus Budget Reconciliation Act of 1990*, Pub.L. No. 101-508, § 10101 *reprinted in* 1990 U.S.C.C.A.N. (104 Stat.) 1388-91 (1990).

8. *United States Patent and Trademark Office Reauthorization Act of 1999*, Pub.L. No. 105-358, 112 Stat. 3272 (1998).

9. Plaintiff's First Amended Complaint (Amended Compl.) ¶ 25; Plaintiff's Opposition To Defendant's Motion To Dismiss (Pl.'s Opp'n) at 6.

fiscal year] ... shall be credited to a separate account established in the Treasury and ascribed to the [PTO] activities in the Department of Commerce as offsetting receipts."[10] Further, defendant asserts that the surcharges are either made immediately available to the PTO or subsequently allocated through appropriation acts,[11] and "shall remain available until expended."[12] Plaintiff avers that once the funds, or their equivalent, have been spent elsewhere, they are no longer available to the PTO. Specifically, plaintiff maintains that "[a]lthough a paper balance sheet credit may remain, it only awaits a formal rescission ...."[13] According to plaintiff, the authority to spend the funds was exhausted during annual appropriations, and the funds are, therefore, no longer available to the PTO because they have been "diverted" to unrelated government programs.

Lastly, plaintiff challenges the rescission of patent fees from the PTO's balance. Plaintiff directs the court's attention to the Omnibus Consolidated and Emergency Supplemental Appropriations Act of 1999, which provides "[o]f the unobligated balances available under this heading from prior year appropriations, fees collected in this fiscal year, and

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10. OBRA 1990 § 10101(b)(1)-(3).

11. *Id.*

12. *Id.* § 10101(c).

13. Plaintiff's Reply To Defendant's Reply To Plaintiff's Opposition To Defendant's Motion to Dismiss (Pl.'s Reply) at 7.

balances of prior year fees, $71,000,000 are rescinded."[14] Defendant concedes that rescissions have occurred.[15] Defendant maintains, however, that a rescission provides no authority for another agency to spend the funds and such authority only derives from an appropriation. Defendant also argues that the rescissions constitute "an immaterial fraction" and a " *de minimus* amount."[16] Further, defendant contends that there has been "no net rescission" because the amount rescinded has been offset by congressional funding of PTO obligations from the general Treasury. On the other hand, plaintiff argues that the "rescinded patent fees are no longer credited to the [PTO's] account and are no longer available to be appropriated to the [PTO]."[17] In sum, plaintiff asserts that the "increases, diversions, and rescissions" of patent fees exceeded Congress' authority under the Patent Clause and the Direct Tax Clause, and constitute an uncompensated taking in violation of the Fifth Amendment of the United States Constitution.

On November 14, 2002, the court held oral argument on defendant's motion to dismiss. In a bench ruling issued that day, the substance of which was reiterated in an order issued

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14. *Omnibus Consolidated and Emergency Supplemental Appropriations Act of 1999*, Pub.L. No. 105-277, 112 Stat. 2861 (1998).

15. Defendant's Reply To Plaintiff's Opposition To Defendant's Motion To Dismiss (Def.'s Reply) at 6 & n. 4.

16. *Id.* at 6.

17. Pl.'s Opp'n at 3.

on November 15, 2002, the court stayed the proceedings in this case in anticipation of the United States Supreme Court's (Supreme Court) decision in *Eldred v. Ashcroft,* 537 U.S. 186, 123 S.Ct. 769, 154 L.Ed.2d 683 (2003), *reh'g denied,* 538 U.S. 916, 123 S.Ct. 1505, 155 L.Ed.2d 243 (2003). On January 15, 2003, the Supreme Court issued its opinion. Following the submission of a joint status report, the stay was lifted on March 19, 2003, and the parties submitted their briefs addressing the impact of *Eldred* on April 30, 2003. All pertinent documents have been submitted, and the case is, therefore, ready for disposition.

Discussion

I. Subject Matter Jurisdiction

In ruling on a motion to dismiss for lack of jurisdiction under RCFC 12(b)(1), the court must accept as true the complaint's undisputed factual allegations and construe the facts in the light most favorable to plaintiff. *Scheuer v. Rhodes,* 416 U.S. 232, 236, 94 S.Ct. 1683, 40 L.Ed.2d 90 (1974); see also *Hamlet v. United States,* 873 F.2d 1414, 1416 (Fed.Cir.1989); *Farmers Grain Co. of Esmond v. United States,* 29 Fed.Cl. 684, 686 (1993). A plaintiff must make only a *prima facie* showing of jurisdictional facts through the submitted material in order to defeat a motion to dismiss. *Raymark Indus., Inc. v. United States,* 15 Cl.Ct. 334, 338 (1988) (citing *Data Disc, Inc. v. Sys. Tech. Assocs., Inc.,* 557 F.2d 1280, 1285 (9th Cir.1977)). If the undisputed facts reveal any possible basis on which the non-moving party might prevail, the court must deny the motion. *Scheuer,* 416 U.S. at 236, 94 S.Ct. 1683; see also *Lewis v. United States,* 32

Fed.Cl. 59, 62 (1994). If, however, the motion challenges the truth of the jurisdictional facts alleged in the complaint, the court may consider relevant evidence in order to resolve the factual dispute. *Rocovich v. United States,* 933 F.2d 991, 994 (Fed.Cir.1991); see also *Lewis,* 32 Fed.Cl. at 62.

It is well-settled that this court is one of specific and defined jurisdiction. The court's jurisdiction, if any, over plaintiff's claims rests on the Tucker Act, which provides that the "Court of Federal Claims shall have jurisdiction to render judgment upon any claim against the United States founded [ ] upon the Constitution, or any Act of Congress . . . ." 28 U.S.C. § 1491(a)(1). The Tucker Act, however, does not itself create "any substantive right enforceable against the United States for money damages." *United States v. Testan,* 424 U.S. 392, 398, 96 S.Ct. 948, 47 L.Ed.2d 114 (1976); see also *United States v. Mitchell,* 445 U.S. 535, 538, 100 S.Ct. 1349, 63 L.Ed.2d 607 (1980). The entitlement to money damages for defendant's alleged violation, therefore, "depends upon whether any federal statute 'can fairly be interpreted as mandating compensation by the Federal Government for the damage sustained.' " *Testan,* 424 U.S. at 400, 96 S.Ct. 948 (quoting *Eastport S.S. Corp. v. United States,* 178 Ct.Cl. 599, 607, 372 F.2d 1002 (1967)). Where a plaintiff, however, seeks the return of money paid over to the government, "[a] claim [need only] assert that the value sued for was improperly paid, exacted, or taken from the claimant in contravention of the Constitution, a statute, or a regulation." *Eastport,* 178 Ct.Cl. at 605, 372 F.2d 1002 (footnote omitted). Further, "[m]onetary claims which cannot be brought within these limits are beyond the court's jurisdiction, even though they may intimately involve the

Constitution, an Act of Congress or an executive regulation." *Id.* at 607, 372 F.2d 1002 (footnote omitted).[18]

A. *Statute of Limitations*

The threshold question the court must resolve is whether plaintiff's claims fall within the six-year statute of limitations. Defendant asserts that any claims concerning the payment or diversion of patent fees, which occurred prior to August 8, 1995, are barred by the statute of limitations. In an attempt to overcome the six-year jurisdictional hurdle, plaintiff maintains that the rescission of $71 million in 1999 included patent fees which were diverted prior to 1995. Plaintiff, therefore, concludes that the statute of limitations began to run when the fees were rescinded in 1999.

Actions brought under the Tucker Act are time-barred if they are not filed within six years of the date the causes of action accrued. 28 U.S.C. § 2501 (1994); see also *Japanese War Notes Claimants Ass'n v. United States,* 178 Ct.Cl. 630, 632, 373 F.2d 356 (1967). The court's six-year statute of limitations is a jurisdictional requirement, which must be strictly construed. *Cmty. Bank & Trust v. United States,* 54 Fed.Cl. 352, 355 (2002); see also *Bear Claw Tribe, Inc. v.*

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18. Plaintiff mistakenly asserts that his "selection of this forum to hear [his] claims deserves great deference." Pl.'s Opp'n at 13; see also Transcript of Oral Argument (Tr.) at 40. While a plaintiff's invocation of this court's jurisdiction will be duly considered, subject matter jurisdiction cannot be waived, *United States v. Cotton,* 535 U.S. 625, 122 S.Ct. 1781, 1785, 152 L.Ed.2d 860 (2002), and contrary to plaintiff's assertion, its selection of this forum is not afforded "great deference."

United States, 36 Fed.Cl. 181, 187 (1996) (citing *Hopland Band of Pomo Indians v. United States*, 855 F.2d 1573, 1577 (Fed.Cir.1988)). A statute of limitations defense is an affirmative defense and must be pled. RCFC 8(c). The plaintiff, however, bears the burden of proving by a preponderance of the evidence that its action was timely filed. *Mason v. United States*, 27 Fed.Cl. 832, 836 (1993). The court may not waive the statute of limitations. *Laughlin v. United States*, 22 Cl.Ct. 85, 99 (1990), *aff'd mem.*, 975 F.2d 869 (Fed.Cir.1992). In sum, a plaintiff's failure to comply with the statute of limitations "places the claim beyond the court's power to hear and decide." *Catellus Dev. Corp. v. United States*, 31 Fed.Cl. 399, 404 (1994).

Plaintiff's payment of allegedly excessive patent fees and Congress' diversion of patent fees, prior to August 8, 1995, in and of itself would be barred by the six-year statute of limitations. See 28 U.S.C. § 2501. According to plaintiff, however, the 1999 rescission included fees which were diverted beginning in fiscal year 1992.[19] The text of the 1999 rescission does indeed indicate that a portion of the rescinded funds were "balances of prior year[s] . . . ."[20] The text does not, however, enumerate the fiscal years from which the balances were taken. The question, therefore, boils down to whether plaintiff bears the burden of demonstrating that the cause of action accrued within the statutory period, or whether defendant must show that plaintiff's claim is barred. The case law is clear, the burden in on plaintiff to establish

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19. Pl.'s Opp'n at 6.

20. Pub.L. No. 105-277, 112 Stat. 2861.

that patent fees from fiscal years 1991 to 1995 were rescinded in 1999. *Catellus,* 31 Fed.Cl. at 404 ("[P]laintiff bears the burden of proving jurisdiction when the question of jurisdiction has been raised in the context of a dispositive motion."); *Mason,* 27 Fed.Cl. at 836 ("The conclusion is ineluctable that since the defense is jurisdictional plaintiffs bear the burden of proof at trial."). While plaintiff contends that patent fees have been diverted since fiscal year 1992, plaintiff has not established by a preponderance of the evidence that the 1999 rescission included any patent fees from fiscal years prior to 1995. *Mason,* 27 Fed.Cl. at 836. All claims prior to August 8, 1995, are, therefore, barred by the statute of limitations.

B. *Standing*

In order to establish standing, plaintiff must satisfy three elements:

> First, the plaintiff must have suffered an "injury in fact" an invasion of a legally protected interest which is (a) concrete and particularized, and (b) "actual or imminent, not 'conjectural' or 'hypothetical.' " Second, there must be a causal connection between the injury and the conduct complained of-the injury has to be "fairly . . . trace[able] to the challenged action of the defendant, and not . . . th[e] result [of] the independent action of some third party not before the court." Third, it must be "likely," as opposed to merely "speculative," that the injury will be "redressed by a favorable decision."

Lujan v. Defenders of Wildlife, 504 U.S. 555, 560-61, 112 S.Ct. 2130, 119 L.Ed.2d 351 (1992) (citations omitted); see also *Paradise Creations, Inc. v. UV Sales, Inc.*, 315 F.3d 1304, 1308 (Fed.Cir.2003). Defendant, relying on *Longshore*, contends that plaintiff lacks standing "to sue to compel a court to second guess or otherwise interfere with Congress' legislative management of its creation."[21] Defendant misreads the *Longshore* decision. Although the United States Court of Appeals for the Federal Circuit (Federal Circuit) ultimately concluded that in the absence of an allegation of a constitutional breach the courts should not intrude upon Congress' legislative thought process, the Federal Circuit did not address the issue of standing in *Longshore*. Rather, the Federal Circuit dismissed the plaintiff's causes of action for failure to state a claim upon which relief can be granted. *Longshore*, 77 F.3d at 444-45. On the other hand, it is clear in this case that plaintiff has pled an actual economic injury which can fairly be traced to Congress' actions and can be redressed by a decision that Congress exceeded its constitutional authority.

i. Small-Entity Fee Subsidy

Defendant asserts that plaintiff could not have contributed to any surplus or have any of its fees diverted because plaintiff received a fifty percent small-entity subsidy. Plaintiff maintains that OBRA 1990 increased small-entity fees and that the diversion of fees encompassed both large-entity fees and small-entity fees. Plaintiff also contends that it paid large-entity rates.

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21. Def.'s Mot. to Dismiss at 12.

There is nothing to indicate that small-entity patent fees were deposited in a separate fund from that of large-entities. Rather, "*all* patent fees paid to the Director and all appropriations for defraying costs of the activities of the [PTO] will be credited to the [PTO] Appropriation Account in the Treasury of the United States." 35 U.S.C. § 42(b) (emphasis added). The court, therefore, rejects defendant's argument that plaintiff lacked standing because it received a small-entity subsidy.

ii. Payment of Fees

Defendant contends that anyone who has not paid patent fees lacks standing. In particular, defendant asserts that Peter Theis (Theis), an individual identified in plaintiff's First Notice Of Additional Plaintiffs,[22] has not paid any patent fees because he licensed each of his patents to third parties that are responsible for paying the patent fees. Plaintiff maintains that Theis remains the real party in interest and is a necessary party to this action. Defendant avers that an inventor is only a necessary party in a patent infringement action.

Plaintiff cites two cases in support of his position, *Prima Tek II, LLC v. A-Roo Co.*, 222 F.3d 1372 (Fed.Cir.2000), *Chou v. Univ. of Chicago*, 254 F.3d 1347 (Fed.Cir.2001), and a provision of the Code of Federal Regulations (CFR), 37 C.F.R. § 10.6. Plaintiff's CFR citation does not support

22. Although the court has not yet ruled on plaintiff's First Notice of Additional Plaintiffs, the court nevertheless addresses the standing issue as it pertains to individuals or entities that have not paid patent fees.

its argument; § 10.6 provides that attorneys, agents, or foreigners can represent another before the PTO, but makes no mention of the payment of fees or assignments. The cases that plaintiff cites to likewise are inapposite. *Prima Tek II* was a patent infringement case brought under 35 U.S.C. § 281. Although the general rule is that a patent owner should be joined in a patent infringement case, the patent owner need not be joined where the transfer amounted to an assignment. *Prima Tek II*, 222 F.3d at 1377 (citing *Ortho Pharm. Corp. v. Genetics Inst., Inc.*, 52 F.3d 1026, 1030 (Fed.Cir.1995)). Plaintiff's First Notice Of Additional Plaintiffs indicates that Theis' patents were assigned to Illinois Technology Transfer, LLC,[23] and Theis, therefore, would not automatically have been a necessary or indispensable party in the litigation.

On the other hand, *Chou* was a suit for correction of inventorship under 35 U.S.C. § 256. The question presented in *Chou* was whether "a putative inventor who is obligated to assign her invention to another is entitled to sue for correction of inventorship under § 256 . . . ." *Chou*, 254 F.3d at 1358. The Federal Circuit held that the plaintiff had standing to sue for correction of inventorship despite the lack of an expectation of ownership. *Id.* The court reasoned that the plaintiff had a "concrete financial interest in the patent" because of royalty payments, stock options, and payments from licensing agreements. *Id.* at 1359. The court also held

23. Plaintiff's First Notice Of Additional Plaintiffs ¶¶ 36-37 (indicating that Illinois Technology Transfer, LLC, "is the assignee and present owner of all of . . . Theis' patents"); see also Tr. at 43-44, 87-88 ("[I]t is technically true that Illinois Technology Transfer is the owner of those patents . . . .").

that the deprivation of these benefits constituted an "injury in fact." Although Theis could, therefore, suffer an "injury in fact" as a result of losing royalty payments, his situation is distinguishable from *Chou* in a key respect. Without deciding whether the injury could be "fairly traceable" to defendant's conduct, Theis' standing argument fails because the court would not be able to redress his alleged injury. See *Lujan,* 504 U.S. at 560, 112 S.Ct. 2130. The "injury in fact" in this case centers around the payment of patent fees. Assuming that the court rendered a decision favorable to plaintiff, any illegal exaction would be returned to the parties that paid the patent fees. As distinguished from *Chou* where the redress entailed the correction of inventorship, the court would not be able to return the illegal exaction to both Illinois Technology Transfer and Theis. Therefore, any person who has not paid patent fees since August 8, 1995, does not have standing.

C. *Pleading an Illegal Exaction*

Defendant asserts that plaintiff has not pled an illegal exaction. To properly plead an illegal exaction, plaintiff must have alleged that he "paid money over to the government, directly or in effect, and seeks return of all or part of that sum . . . ." *Eastport,* 178 Ct.Cl. at 605, 372 F.2d 1002; *Aerolineas Argentinas v. United States,* 77 F.3d 1564, 1573 (Fed.Cir.1996) ("[A]n illegal exaction has occurred when 'the government has the citizen's money in its pocket.' Suit can then be maintained under the Tucker Act to recover the money exacted.") (quoting *Clapp v. United States,* 127 Ct.Cl. 505, 117 F.Supp. 576 (1954)).

Appendix C

In plaintiff's Amended Complaint, plaintiff alleged that he paid patent fees and that said fees were illegal because they exceeded constitutional limitations.[24] Plaintiff's request for relief also sought "the return of any diverted or rescinded patent fees . . . ."[25] Although plaintiff did not expressly use the term "illegal exaction" or "wrongful exaction" until its opposition to defendant's motion to dismiss, plaintiff's Amended Complaint contained "all the material elements necessary to sustain a recovery . . . ." *Herdrich v. Pegram,* 154 F.3d 362, 369 (7th Cir.1998). Accordingly, the court concludes that plaintiff pled an illegal exaction. See *Conley v. Gibson,* 355 U.S. 41, 48, 78 S.Ct. 99, 2 L.Ed.2d 80 (1957) (explaining that pleading is not "a game of skill in which one misstep by counsel may be decisive to the outcome and . . . that the purpose of pleading is to facilitate a proper decision on the merits").

D. *Patent Clause*

Plaintiff maintains that the court has jurisdiction over its Patent Clause claim because it seeks the return of an illegal exaction. Defendant does not dispute the court's jurisdiction over illegal exactions, but rather asserts that the Patent Clause "does not in any way confer a substantive right on any individual," *Tape Indus. Ass'n of Am. v. Younger,* 316 F.Supp.

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24. Amended Complaint ¶¶ 2, 5.

25. *Id.* at 10. In addition, plaintiff acknowledged at oral argument that the requested relief only sought "the return of the money to the Plaintiff, and we respectfully submit that it may be beyond this Court's authority to order the return of the money to the patent office." Tr. at 47-48.

340, 346 (C.D.Cal.1970), and does not mandate the payment of money.

Irrespective of the court's analysis concerning the Patent Clause's substantive limitations, the court has jurisdiction to hear claims for illegal or wrongful exactions. *Eastport,* 178 Ct.Cl. at 605, 372 F.2d 1002. In the context of an illegal exaction, the court has jurisdiction regardless of whether the provision relied upon can be reasonably construed to contain money-mandating language. *Bowman,* 35 Fed.Cl. 397, 401 (1996) ("In illegal exaction cases, in contrast to other actions for money damages, jurisdiction exists even when the provision allegedly violated does not contain compensation mandating language."). Defendant's arguments, therefore, are rejected, and the court has jurisdiction over plaintiff's Patent Clause claim as an illegal exaction.

E. *Direct Tax Clause*

Plaintiff contends that Congress' "increases, diversions, and rescissions" of patent fees constitute a direct tax in violation Article I, Section 9, Clause 4. Defendant maintains, as it did in regard to the Patent Clause, that the court lacks jurisdiction because the Direct Tax Clause does not mandate the payment of money.

As plaintiff made clear in response to the court's inquiry at oral argument, his Direct Tax Clause claim seeks the return of an illegal exaction.[26] The Federal Circuit has held that

26. Tr. at 45 (explaining that the Direct Tax Clause claim is "properly classified as an illegal exaction").

this court has jurisdiction "over [a] tax count, which seeks refund of a wrongful exaction." *Longshore,* 77 F.3d at 441 (citing *Testan,* 424 U.S. at 401-02, 96 S.Ct. 948); see also *Halliburton Co. ex rel. Halliburton v. United States,* 41 Fed.Cl. 272, 274-75 (1998) (explaining that the Court of Federal Claims has jurisdiction over illegal exactions). In this regard, defendant's argument that the court lacks jurisdiction because the Direct Tax Clause does not mandate the payment of money fails. *Bowman,* 35 Fed.Cl. at 401. The court, therefore, exercises jurisdiction over plaintiff's Direct Tax Clause claim as an illegal exaction.

F. *Takings Claim*

Defendant contends that plaintiff's takings claim should be dismissed because allegations of unauthorized action cannot form the basis of a takings claim. Plaintiff asserts that its takings claim was pled as "an alternative basis of recovery,"[27] and should be considered only if the court finds that Congress' actions were authorized.[28]

Defendant correctly points out that this court cannot exercise jurisdiction over a takings claim premised on unauthorized action. *Short v. United States,* 50 F.3d 994, 1000 (Fed.Cir.1995); *Tabb Lakes, Ltd. v. United States,* 10 F.3d 796, 802 (Fed.Cir.1993); *Florida Rock Indus., Inc. v. United States,* 791 F.2d 893, 895-99 (Fed.Cir.1986), *cert. denied,* 479 U.S. 1053, 107 S.Ct. 926, 93 L.Ed.2d 978 (1987). Indeed,

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27. Pl.'s Opp'n at 34.

28. *Id.* at 34-35 n. 12.

plaintiff "must concede the validity of the government action which is the basis of the taking claim to bring suit under the Tucker Act." *Tabb Lakes,* 10 F.3d at 802 (citing *Florida Rock,* 791 F.2d at 899); see also *Golder v. United States,* 15 Cl.Ct. 513, 518 (1988).

Although defendant correctly interprets takings law, defendant's argument overlooks the court's pleading rules. According to the rules of this court, plaintiff is permitted to plead inconsistent claims in the alternative. RCFC 8(a), (e). While plaintiff's complaint did not expressly delineate its takings claim as being advanced "in the alternative," the court will nevertheless construe plaintiff's takings claim as such. See RCFC 8(f). Plaintiff logically could not prevail on both its Patent Clause claim and its takings claim. For example, if the court holds that Congress exceeded the Patent Clause's grant of authority, Congress' actions would be unauthorized and plaintiff's takings claim would fail on that basis. On the other hand, if the court holds that Congress' actions did not violate the Patent Clause, Congress' actions would have been authorized and although plaintiff would not be able to prevail on that count, plaintiff would be able to proceed under its takings claim. The fact that the validity of Congress' action is still in dispute, therefore, does not warrant dismissal of plaintiff's takings claim on jurisdictional grounds.

II. Failure to State a Claim Upon Which Relief Can Be Granted

The court will grant a RCFC 12(b)(6) motion only if it appears beyond a doubt that plaintiff has failed to allege facts sufficient to support his claim. *Conley,* 355 U.S. at 45-46,

78 S.Ct. 99; *Mostowy v. United States,* 966 F.2d 668, 672 (Fed.Cir.1992). In ruling on a RCFC 12(b)(6) motion to dismiss, the court must accept as true the complaint's undisputed factual allegations and should construe them in a light most favorable to plaintiff. *Papasan v. Allain,* 478 U.S. 265, 283, 106 S.Ct. 2932, 92 L.Ed.2d 209 (1986) (citing *Scheuer,* 416 U.S. at 236, 94 S.Ct. 1683; *Gould, Inc. v. United States,* 935 F.2d 1271, 1274 (Fed.Cir.1991)). Nevertheless, "conclusory allegations unsupported by any factual assertions will not withstand a motion to dismiss." *Briscoe v. LaHue,* 663 F.2d 713, 723 (7th Cir.1981), *aff'd,* 460 U.S. 325, 103 S.Ct. 1108, 75 L.Ed.2d 96 (1983). "[L]egal conclusions, deductions, or opinions couched as factual allegations are not given a presumption of truthfulness." *Blaze Constr., Inc. v. United States,* 27 Fed.Cl. 646, 650 (1993) (internal quotations omitted).

A. *Patent Clause*

Plaintiff asserts that the "increases, diversions, and rescissions" of patent fees exceed Congress' authority "[t]o promote the Progress of . . . useful Arts." Defendant avers that it is beyond the court's power to review the level at which the patent fees were set as well as the manner in which Congress appropriates the fees. Defendant, relying on *Tape Industries,* also contends that the Patent Clause "does not in any way confer a substantive right on any individual." *Tape Indus.,* 316 F.Supp. at 346. Further, defendant maintains that plaintiff's Patent Clause claim is based solely on the clause's "preamble," which the United States Court of Appeals for the District of Columbia (D.C.Circuit) held is not a substantive limit on Congress' power. *Eldred v. Reno,* 239

F.3d 372, 377-78 (D.C.Cir.2001). Defendant also asserts that a diversion has not occurred and that there has been no net rescission of funds.

As an initial matter, defendant asserts that the Federal Circuit has unequivocally established that it is for Congress, not the courts, to determine "[t]he level at which the fee was to be set, and why, and where the excess over costs should go . . . ." *Longshore,* 77 F.3d at 443. In *Longshore,* Congress enacted legislation requiring the Federal Communications Commission (FCC) to utilize a lottery-type system when awarding a cellular radio systems license. *Id.* at 441. An applicant seeking the license was required to submit a $200 application fee along with the application. *Id.* The application fee exceeded the FCC's actual administrative costs by $180 and the excess sums were deposited into a general account at the United States Treasury. *Id.* at 442. The plaintiff in *Longshore* argued that the allegedly excessive fee constituted a taking in violation of the Fifth Amendment and constituted an usurpation of Congress' taxing power under Article 1, Section 8, Clause 1 of the Constitution. *Id.* The Federal Circuit rejected the plaintiff's argument and dismissed both counts for failure to state a claim upon which relief can be granted. *Id.* at 445. The Federal Circuit reasoned that absent an allegation of a constitutional breach, the court should not interfere with Congress' management of executive branch agencies. *Id.* at 444.

Defendant's reading of *Longshore* overlooks the instances where the Federal Circuit made clear that the plaintiff was not alleging a constitutional violation. *Id.* at 443 ("[Plaintiff] does not claim that Congress has exceeded

its constitutional authority to control and regulate access to the spectrum."); see also *id.* at 444 n. 3 ("We note again that appellant has not based his challenge on any purported overstepping of Congress' constitutional authority . . . ."). The Federal Circuit also qualified its reasoning in the following manner: "Even if we were to assume that Congress acted foolishly, or mistakenly, or ignorantly, that is a matter that only Congress can correct, *absent some clear breach of its constitutional power.*" *Id.* at 444 (emphasis added). Contrary to defendant's assertion, the Federal Circuit has not foreclosed review of Congress' actions in the realm of agency administration. Rather, as can be gleaned from *Longshore,* the court is permitted to review Congress' actions to ascertain their constitutionality. As distinguished from the plaintiffs' in *Longshore,* plaintiff has alleged that Congress exceeded the limitations set forth in the Constitution. Congress' actions in this case are, therefore, not immune from judicial review.

Defendant next argues that "the Supreme Court . . . has made it absolutely clear that the [Patent Clause] merely empowers Congress to enact legislation and does not in any way confer a substantive right on any individual." *Tape Indus.,* 316 F.Supp. at 346 (citations omitted). Plaintiff's Patent Clause claim, however, is subtly distinct from *Tape Industries* and the cases referenced therein. Plaintiff is not alleging that the Patent Clause confers any sort of substantive right upon him. Rather, as the petitioners in *Eldred,* plaintiff is asserting that Congress exceeded its constitutional authority under the Patent Clause. See *Eldred,* 123 S.Ct. at 775 ("[Petitioners] seek a determination that the CTEA fails constitutional review . . . ."). For that matter, if the Patent Clause truly did not provide any basis for redress from alleged

unconstitutional congressional action, the Supreme Court would simply have dismissed the complaint in *Eldred* on that ground. As defendant is well aware, however, that was not the reasoning advanced by the Supreme Court.

The inquiry, therefore, turns to the text of the Patent Clause which provides that "Congress shall have power ··· [t]o promote the Progress of . . . useful Arts, by securing for limited Times to . . . Inventors the exclusive right to their . . . Discoveries." U.S. Const. art. I, § 8, cl. 8. Although "there was no recorded debate in the Constitutional Convention . . . when the proposed copyright clause was presented,"[29] the court's research reveals a diverse range of opinions regarding the clause's proper construction. Compare *Eldred v. Reno,* 239 F.3d 372 (D.C.Cir.2001), *aff'd,* 537 U.S. 186, 123 S.Ct. 769, 154 L.Ed.2d 683 (2003), *Hutchinson Tel. Co. v. Fronteer Directory Co. of Minn.,* 770 F.2d 128 (8th Cir.1985), *Schnapper v. Foley,* 667 F.2d 102 (D.C.Cir.1981), *Tape Indus. Ass'n of Am. v. Younger,* 316 F.Supp. 340, 346 (C.D.Cal.1970), *Ladd v. Law & Tech. Press,* 762 F.2d 809, 812 (9th Cir.1985), with *Brenner v. Manson,* 383 U.S. 519, 528-29, 86 S.Ct. 1033, 16 L.Ed.2d 69 (1966), *Stiftung v. Renishaw,* 945 F.2d 1173, 1180 (Fed.Cir.1991), *Mitchell Bros. Film Group v. Cinema Adult Theater,* 604 F.2d 852 (5th Cir.1979), *Frantz Mfg. Co. v. Phenix Mfg. Co.,* 457 F.2d 314 (7th Cir.1972), *Aalmuhammed v. Lee,* 202 F.3d 1227 (9th Cir.2000), *Rosemont Enters., Inc. v. Random House, Inc.,*

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29. Irah Dohner, *The Copyright Clause of the U.S. Constitution: Why Did the Framers Include It with Unanimous Approval?,* 36 Am. J. Legal Hist. 361, 361 (1992).

366 F.2d 303 (2d Cir.1966), and *Greenberg v. Nat'l Geographic Soc'y*, 244 F.3d 1267 (11th Cir.2001).[30]

The court begins with the proposition enunciated two hundred years ago by Chief Justice Marshall in *Marbury v. Madison:* "[i]t cannot be presumed that any clause in the constitution is intended to be without effect . . . ." *Marbury v. Madison*, 5 U.S. (1 Cranch) 137, 174, 2 L.Ed. 60 (1803). The Supreme Court recently reaffirmed this principle in *United States v. Morrison*, stating that "the powers of the legislature are defined, and limited; and that those limits may not be mistaken, or forgotten, the constitution is written." *United States v. Morrison*, 529 U.S. 598, 607, 120 S.Ct. 1740, 146 L.Ed.2d 658 (2000) (citing *Marbury*, 5 U.S. at 176). The import of these statements leads to the inevitable conclusion that Congress' power in the area of patents derives from the very language the founding fathers incorporated into the text of the Patent Clause. *Aalmuhammed*, 202 F.3d at 1235; *Greenberg*, 244 F.3d at 1271 ("The copyright clause, consisting of twenty-four words crafted by our founding fathers, is the Rosetta Stone for all statutory interpretation and analysis."). As with any enumerated power, this grant of power is not limitless; rather, even at its broadest construct, there is a necessity that some "outer limit" be imposed. *Eldred*, 239 F.3d at 381 (Sentelle, J., dissenting); see also *United States v. Lopez*, 514 U.S. 549, 556-57, 115 S.Ct. 1624, 131 L.Ed.2d 626 (1995) ("[C]ongressional power under the Commerce Clause . . . is subject to outer limits.").

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30. See also Melville B. Nimmer & David Nimmer, Nimmer on Copyrights § 1.03 (2002).

Appendix C

The Supreme Court has on numerous occasions commented about the proper scope and interpretation of the Patent Clause. The Supreme Court has held that the Patent Clause constitutes both "a grant of power and a limitation." *Graham v. John Deere Co. of Kansas City,* 383 U.S. 1, 5, 86 S.Ct. 684, 15 L.Ed.2d 545 (1966). The Supreme Court has also characterized Congress' power under the Patent Clause as a "qualified authority ... limited to the promotion of advances in the 'useful arts.' " *Id.* In the context of copyrights, the Supreme Court has recognized that "[t]he 'constitutional command' ... is that Congress, to the extent it enacts copyright laws at all, create a 'system' that 'promote[s] the Progress of Science.' " *Eldred,* 123 S.Ct. at 783 (citing *Feist Publ'n, Inc. v. Rural Tel. Serv. Co., Inc.,* 499 U.S. 340, 349, 111 S.Ct. 1282, 113 L.Ed.2d 358 (1991)). In addition, the Supreme Court has stated that Congress' "primary objective" must be "[t]o promote the Progress of Science." *Id.,* 123 S.Ct. at 784-85 (citing *Feist,* 499 U.S. at 349, 111 S.Ct. 1282). It is, therefore, "[w]ithin the scope established by the Constitution, [that] Congress may set out conditions and tests for patentability." *Graham,* 383 U.S. at 6, 86 S.Ct. 684 (citing *McClurg v. Kingsland,* 42 U.S. (1 How.) 202, 206, 11 L.Ed. 102 (1843)); *Law & Tech. Press,* 762 F.2d at 813 (interpreting *Graham* to stand for the proposition that conditions must adhere to the constitutional grant of power).

Relying on *Schnapper* and *Eldred,* however, defendant asserts "that the preamble of the Copyright Clause is not a substantive limit on Congress' legislative power." *Eldred,* 239 F.3d at 378 (citing *Schnapper,* 667 F.2d at 112). Defendant also maintains that the Supreme Court left appellate precedent undisturbed by declining to address

whether the "preambular '[t]o promote' language of Article I's Copyrights and Patents Clause to be an independently enforceable substantive limitation upon Congress."[31] As set forth below, the court must reject defendant's argument that the introductory language of the Patent Clause is not a substantive limit on Congress' power.

By declining to expressly address whether Congress' power is independently limited by the phrase "to promote the Progress of . . . useful Arts," the Supreme Court did indeed leave the D.C. Circuit decisions in *Schnapper* and *Eldred* undisturbed. The true import of defendant's argument, however, is that all appellate precedent was left undisturbed by the Supreme Court's refusal. Although the holdings of the decision rendered by the D.C. Circuit remain intact, cases from the Federal Circuit shedding light on the issue likewise retain their viability. The cases from the two circuits may conflict, but that is immaterial; the Federal Circuit, not the D.C. Circuit, guides the court's inquiry. Further, any discrepancy between the two circuits must heed to the Supreme Court's decision in *Brenner*.

The Federal Circuit has held that the utility requirement of 35 U.S.C. § 101 derives from the introductory language of the Patent Clause. *Stiftung*, 945 F.2d at 1180 ("The utility requirement has its origin in article I, section eight of the Constitution, which indicates that the purpose of empowering Congress to authorize the granting of patents is 'to promote

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31. Defendant's Memorandum Regarding The United States Supreme Court's Decision In Eldred v. Ashcroft at 1.

progress of ... *useful* Arts.' " (emphasis in original)).[32] The Federal Circuit cited the Supreme Court's decision in *Brenner* which provided that "[o]ur starting point is the proposition, neither disputed nor disputable, that one may only patent that which is 'useful.' " *Brenner,* 383 U.S. at 528-29, 86 S.Ct. 1033; see also *Gibbons v. Ogden,* 22 U.S. (9 Wheat.) 1, 171, 6 L.Ed. 23 (1824) ("The law of Congress declares, that all inventors of useful improvements throughout the United States, shall be entitled to the exclusive right in their discoveries ....."). The "usefulness" requirement, therefore, derives directly from the clause's "preamble."

The court will not entertain arguments that the clause's language should be parsed even further to give meaning to the term "useful" but to deny any substantive meaning to the phrase "to promote the progress of ...." With the debate having delved this deeply, it is important to remember basic principles of statutory construction that direct the court to construe a provision in a manner which gives meaning and effect to "every clause and word of a statute." *Williams v. Taylor,* 529 U.S. 362, 404, 120 S.Ct. 1495, 146 L.Ed.2d 389 (2000); see also *W & F Bldg. Maint. Co. v. United States,* 56 Fed.Cl. 62, 69 (2003). If the court accepted defendant's argument, the court would render a segment of the Patent Clause meaningless; a segment containing a term which the Supreme Court and the Federal Circuit have previously defined. The court is bound by *Stiftung* and *Brenner* and defendant's argument, therefore, fails.

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32. See also 1 E. Lipscomb, *Lipscomb's Walker on Patents* § 5.1, at 476 (3d ed.1984); 1 D. Chisum, *Patents* § 101, at 1-7 to 1-8 & n. 12 (2003).

In this regard, the court also finds the Supreme Court's analysis in *Eldred* instructive. In *Eldred,* the petitioners conceded that the "preamble" of the Patent Clause did not constitute a limit on congressional power. *Eldred,* 239 F.3d at 377-78.[33] The crux of petitioner's argument, however, was that "limited times" should be analyzed in relation to the Patent Clause's introductory language. *Id.* When rejecting petitioner's claim, the D.C. Circuit explained that "one cannot concede that the preamble 'is not a substantive limit' and yet maintain that it limits the permissible duration of a copyright more strictly than does the textual requirement that it be for a 'limited time.' " *Id.* On writ of certiorari, however, the Supreme Court analyzed the impact of the Copyright Term Extension Act (CTEA) in relation to the introductory language of the Patent Clause. *Eldred,* 123 S.Ct. at 784-86 ("The justifications ... provide a rational basis for the conclusion that the CTEA 'promote[s] the Progress of Science.' "). The D.C. Circuit's conclusion that the clause's "preamble" contains no limitation whatsoever is at odds with the Supreme Court's analysis in *Eldred.* If the introductory language lacked any substantive limitation, the Supreme Court would not have engaged in what would have been deemed extraneous and unnecessary analysis.

Perhaps envisioning that the court would be apprehensive about rendering a segment of the Patent Clause meaningless,

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33. It appears that the petitioners in *Eldred* had no option but to concede this issue. Once *Schnapper* was "on the books," the D.C. Circuit was "bound by its holding unless and until that holding [was] changed by [an *en banc* panel] or by the higher authority of the Supreme Court." *Eldred,* 239 F.3d at 382 (Sentelle, J., dissenting) (citing *LaShawn A. v. Barry,* 87 F.3d 1389, 1395 (D.C.Cir.1996)).

defendant asserts that the introductory language of the Patent Clause is nevertheless inapplicable to patent fees. The court is well-aware that Congress has the power to condition the grant of a patent on the payment of patent fees. *Giuliani v. United States,* 8 U.S.P.Q.2d 1095, 1095, 1988 WL 97455 (D.Haw.1988) (citing *Boyden v. Comm'r of Patents,* 441 F.2d 1041, 1043 (D.C.Cir.1971)), *aff'd,* 878 F.2d 1444 (Fed.Cir.1989). Defendant maintains that "[n]o person has a vested right to a patent ... but is privileged to seek the protected monopoly only upon compliance with conditions Congress has imposed." *Boyden,* 441 F.2d at 1043 (citing *McClurg,* 42 U.S. at 202); *Mast, Foos & Co. v. Stover Mfg. Co.,* 177 U.S. 485, 494, 20 S.Ct. 708, 44 L.Ed. 856 (1900) ("Congress having created the monopoly, may put such limitations upon it as it pleases."). Conversely, plaintiff contends that patent fees must be limited to that which is necessary and "essential to the effective working of the patent system." *Boyden,* 441 F.2d at 1044.[34]

Congress is empowered "t[o] make all Laws which shall be necessary and proper for carrying into Execution" its enumerated Article I powers. U.S. Const. art. I, § 8, cl. 18. Congress has not exceeded its power where the means it adopts are "appropriate" and "plainly adapted" to achieving a constitutional end. *M'Culloch v. Maryland,* 17 U.S. (4 Wheat.) 316, 421 (1819). In exercising its power under the Patent Clause, Congress may enact laws that are

34. The full text of the D.C. Circuit's statement reads as follows: "Congress has granted a privilege, open to all, and has created no requirements which can be said to be unnecessary to what Congress in the exercise of its plenary power deems essential to the effective working of the patent system." *Boyden,* 441 F.2d at 1044.

"necessary and proper" to achieving the constitutional end of "promot[ing] the Progress of . . . useful Arts." *Mitchell Bros.*, 604 F.2d at 860. It is under this standard that the United States Court of Appeals for the Fifth Circuit upheld Congress' decision to permit writings to be copyrighted without regard to their content. *Id.* at 858-60. Further, although the United States Court of Appeals for the Ninth Circuit did not find a limit to Congress' power in the Patent Clause, it nevertheless analyzed whether requiring a copyright holder to deposit two copies of its publication with the Library of Congress as a condition to obtaining a patent was necessary and proper. *Law & Tech. Press,* 762 F.2d at 812. When Congress enacts legislation that "increases, diverts, or rescinds" patent fees, it purports to exercise its power under the Necessary and Proper clause. As indicated in *Mitchell Bros.* and *Law & Technology Press,* Congress' actions may be reviewed. The court sees no reason to exclude the imposition of surcharges, as a condition to obtaining a patent,[35] from Congress' constitutional mandate. See *Graham,* 383 U.S. at 6, 86 S.Ct. 684 (citing *McClurg,* 42 U.S. at 206); *Law & Tech. Press,* 762 F.2d at 813. If the conditions which Congress imposed did not comport with its constitutional command, the purpose of the clause could be thwarted by merely framing any requirement as a condition. Further, the alleged implementation of a process by which patent fees are "increased, diverted or rescinded" without regard to, or in contravention of, constitutional authority warrants judicial review. See *Longshore,* 77 F.3d at 443-45. In sum, defendant has not convincingly explained how the increased patent fees

35. During oral argument, and in its briefs, defendant repeatedly indicated that the fee was "a condition of the patent privilege." Tr. at 14, 15, 21, 23-24, 76; Def.'s Mot. to Dismiss at 33, 38, 40.

and the "diversion or rescission" of patent fees do not fall within the "system" that must "promote the Progress of . . . useful Arts." See *Eldred,* 123 S.Ct. at 783 (citing *Feist,* 499 U.S. at 349, 111 S.Ct. 1282). Plaintiff has, therefore, stated a claim upon which relief can be granted.

That is not to say that what Congress has done here conclusively exceeds its power under the Patent Clause and constitutes an illegal exaction. "Within the limits of [its] constitutional grant, the Congress may, of course, implement the stated purpose of the Framers by selecting the policy which in its judgment best effectuates the constitutional aim." *Graham,* 383 U.S. at 6, 86 S.Ct. 684. Accordingly, the court's subsequent review of Congress actions will be governed by substantial deference. *Eldred,* 123 S.Ct. at 783; *Law & Tech. Press,* 762 F.2d at 812; *Mitchell Bros.,* 604 F.2d at 860 ("[T]he court's role in judging whether Congress has exceeded its Article I power is limited."). The court's role will, therefore, be limited to discerning if Congress' legislation "increasing, diverting, and rescinding" patent fees was necessary and proper to achieving its constitutional end of "promot[ing] the Progress of . . . useful Arts."

Lastly, defendant asserts that there has been neither a "diversion" of patent fees nor a "net rescission [of patent fees] to the General Treasury."[36] Specifically, defendant maintains that plaintiff cannot point to any appropriations that authorize another agency to expend the funds credited to the PTO. Plaintiff has, however, at the very least directed the court's attention to the increased level of patent fees.

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36. Def.'s Reply at 4.

Further, plaintiff's allegations appear to entail more than a simple "diversion and rescission followed by an appropriation" construct. Rather, plaintiff is asserting that funds are not appropriated to the PTO in order that the equivalent of those funds may be spent on unrelated government programs. By withholding the funds from the PTO in a given year, Congress is thereby permitted to appropriate the amount not expended by the PTO to other government programs. And all that awaits, therefore, is a formal rescission, which defendant has already conceded occurred. In this model, an appropriation of the funds credited to the PTO is not required. Although these issues will require further ventilation, they are sufficient to withstand a motion to dismiss.

B. *Direct Tax Clause*

Plaintiff asserts that the "increases, diversions, and rescissions" of patent fees constitute an unlawful direct tax on its intellectual property. Defendant, on the other hand, urges the court to adopt the reasoning of *Longshore* and hold that the patent fees are not a tax, but rather a condition of applying for the patent privilege. In this regard, defendant avers that plaintiff has no intellectual property right apart from satisfying statutorily imposed conditions and, therefore, there was no privately owned asset that could be taxed. Plaintiff maintains that it owns its inventions under state trade secret laws and that a patent application constitutes property.[37] Defendant also asserts that if the patent fees are found to be

37. Tr. at 66-67, 84-86.

a tax, the tax nevertheless more closely resembles an excise tax than a direct tax.

"[T]he Constitution recognizes the two great classes of direct and indirect taxes, and lays down two rules by which their imposition must be governed, namely: The rule of apportionment as to direct taxes, and the rule of uniformity as to duties, imposts and excises." *Pollock v. Farmers' Loan and Trust Co.*, 157 U.S. 429, 557-58, 15 S.Ct. 673, 39 L.Ed. 759 (1895). The Direct Tax Clause provides that "No Capitation, or other direct, Tax shall be laid, unless in Proportion to the Census or Enumeration herein before directed to be taken." U.S. Const. art. I, § 9, cl. 4. The method of apportionment is determined by Article I, Section 2 of the Constitution. U.S. Const. art. I, § 2. "A direct tax is a tax on real or personal property, imposed solely by reason of its being owned by the tax payer." *Simmons v. United States*, 308 F.2d 160, 166 (4th Cir.1962); *NationsBank of Texas v. United States*, 269 F.3d 1332, 1335 (Fed.Cir.2001) ("A tax is direct if levied directly upon property . . . ."). The burden of persuasion rests with the party alleging the existence of a direct tax. *First Nat. Bank in Dallas v. United States*, 190 Ct.Cl. 400, 413, 420 F.2d 725 (1970).

Plaintiff correctly avers that it owns its invention under state trade secret laws. *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1000-04, 104 S.Ct. 2862, 81 L.Ed.2d 815 (1984) (recognizing the "property-like nature" of trade secrets); See *Group One, Ltd., v. Hallmark Cards, Inc.*, 254 F.3d 1041, 1050 (Fed.Cir.2001). Plaintiff also correctly maintains that a patent application constitutes property. See 37 C.F.R. § 1.21 (enumerating the fee associated with "recording each

assignment, agreement or other paper relating to the property in a patent or application"). Ownership of an invention under state trade secret law, or ownership of a patent application, does not change the fact that plaintiff does not have a preexisting property right in a patent independent of payment of the patent fees. See *McClurg*, 42 U.S. at 206; Cf. *Longshore*, 77 F.3d at 444-45 (holding that the fee to participate in a lottery for a cellular radio system license was not a tax because there was no privately owned asset to tax). Plaintiff's property interest in a patent accrues only after it has satisfied all mandatory conditions. Prior to that occurrence, plaintiff does not have a recognizable property interest that can be taxed.

In an attempt to overcome the lack of a recognizable property interest, plaintiff contends that the maintenance fees independently constitute a direct tax on its personal property. Specifically, plaintiff avers that the maintenance fees are a direct tax because they are "required even where the inventor does not license, use or otherwise practice the patented invention."[38] Defendant reiterates its argument that maintenance fees are a condition which plaintiff must satisfy to sustain the privilege of a patent. The court agrees with defendant. As a condition of granting the patent privilege for the full twenty-year term, plaintiff is required to periodically pay maintenance fees.[39] If these maintenance fees are not paid, it is not that plaintiff's personal property is taken away, or for that matter taxed, but rather the conditions of the privilege are no longer satisfied. See 35 U.S.C.

38. Pl.'s Reply at 19.

39. 37 C.F.R. §§ 1.20(e)-(i).

§ 154(a)(2) (explaining that the term of a patent is contingent upon the payment of fees). Therefore, as to his Direct Tax Clause claim, plaintiff has failed to state a claim upon which relief can be granted.

C. *Takings Claim*

The court next addresses, under the assumption that Congress' actions were authorized, plaintiff's assertion that the "increases, diversions, and rescissions" of patent fees constitutes a taking without just compensation.[40] Defendant contends that "the Takings Clause does not apply to legislation requiring the payment of money." *Commonwealth Edison Co. v. United States,* 271 F.3d 1327, 1329 (Fed.Cir.2001) (citing *Eastern Enters. v. Apfel,* 524 U.S. 498, 118 S.Ct. 2131, 141 L.Ed.2d 451 (1998)). Defendant, again relying on *Longshore,* also avers that the patent fees are a condition of applying for the patent privilege, and plaintiff does not have a property right that may be taken.

The Fifth Amendment of the Constitution states that "private property" shall not "be taken for public use, without just compensation." U.S. Const. amend. V. In takings jurisprudence, it is firmly established that certain government regulations can constitute a taking of property requiring just compensation. *Penn Cent. Transp. Co. v. City of New York,* 438 U.S. 104, 98 S.Ct. 2646, 57 L.Ed.2d 631 (1978); *Lucas v. S. Carolina Coastal Council,* 505 U.S. 1003, 112 S.Ct.

40. At oral argument, plaintiff indicated that its takings claim and Direct Tax Clause claim are not dependent on the resolution of its Patent Clause claim. Tr. at 32.

2886, 120 L.Ed.2d 798 (1992). This proposition is not strictly limited to real property, but rather "[i]t is also clear that a fund of money can be property protected under the Takings Clause." *Edison,* 271 F.3d at 1338; see also *Phillips v. Washington Legal Found.*, 524 U.S. 156, 160, 118 S.Ct. 1925, 141 L.Ed.2d 174 (1998); *Webb's Fabulous Pharmacies, Inc. v. Beckwith,* 449 U.S. 155, 164-65, 101 S.Ct. 446, 66 L.Ed.2d 358 (1980).

The Federal Circuit has made it clear that "[t]he definitive issue with respect to ... [a] takings claim ... is whether [the plaintiff] had a property interest that was taken from him by government action." *Longshore,* 77 F.3d at 443. As was discussed in the resolution of plaintiff's Direct Tax claim, the principle that plaintiff does not have an independent property interest apart from satisfying all conditions imposed by Congress is equally applicable to plaintiff's takings claim. Plaintiff's takings claim, therefore, rests on his allegations that the voluntary payment of increased patent fees, and the subsequent diversion or rescission of those fees, constitutes a taking. Although a fund of money may be protected, "the mere imposition of an obligation to pay money ... does not give rise to a claim under the Takings Clause of the Fifth Amendment." *Edison Co.,* 271 F.3d at 1340; see *Atlas Corp. v. United States,* 895 F.2d 745, 756 (Fed.Cir.1990) ("Requiring money to be spent is not a taking of property.") (citing *United States v. Sperry Corp.*, 493 U.S. 52, 62, 110 S.Ct. 387, 107 L.Ed.2d 290 (1989)). In *Sperry Corp.*, the Supreme Court rejected the argument that the government's fee constituted a physical appropriation of property. The Court made clear that "[u]nlike real or personal property, money is fungible." *Sperry Corp.*,

493 U.S. at 62 n. 9, 110 S.Ct. 387. As the case law makes clear, takings law offers plaintiff no reprieve. *Longshore,* 77 F.3d at 443-45 (holding that the payment of fees as a prerequisite to participating in a lottery for a radio cellular systems license was not a taking).

Plaintiff, however, shifts gears and also asserts that the PTO held patent fees in trust, "constructive or otherwise,"[41] on their behalf and that the alleged diversion and rescission of patent fees independently constitutes a taking. See *Phillips,* 524 U.S. at 160, 118 S.Ct. 1925; *Webb's,* 449 U.S. at 164-65, 101 S.Ct. 446. Defendant contends that the trust fund to which plaintiff refers is actually a Customer Deposit Account (CDA), which is a separate account from "ordinary" patent application fees, and that plaintiff has not deposited any money into that particular account. Plaintiff appears to maintain that its takings claim is based on both the Cumulative Result of Operations (CRO) and CDA.[42] Defendant avers that the CRO is simply a calculation of the "cumulative unrestricted net operating gain recognized by the PTO since its inception"[43] and cannot be characterized as a trust account.

Before examining the parties' arguments, the court notes that plaintiff relies on an appendix submitted with his Opposition To Defendant's Motion To Dismiss to support

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41. Pl.'s Reply at 10.

42. *Id.* at 11.

43. Pl.'s Opp'n, Appendix (App.) at 19.

his trust argument. Defendant also relies on plaintiff's appendix in supporting its position. RCFC 12(b) provides that a motion to dismiss for failure to state a claim shall be treated as a motion for summary judgment under RCFC 56 if "matters outside the pleading are presented to and not excluded by the court." RCFC 12(b); *Rockefeller Ctr. Props. v. United States*, 32 Fed.Cl. 586, 589 n. 6 (1995). Since the parties clearly rely on more than just the pleadings for their trust arguments, the court will analyze this aspect of defendant's motion to dismiss under the summary judgment standard.

Plaintiff correctly recognizes that *Webb's* and *Phillips* hold that a fund can be protected under the Fifth Amendment. *Webb's*, 449 U.S. at 164-65, 101 S.Ct. 446; *Phillips*, 524 U.S. at 160, 118 S.Ct. 1925. In *Webb's*, the Supreme Court held that interest taken from private funds deposited with a court in an interpleader action was a taking of private property. *Webb's*, 449 U.S. at 164-65, 101 S.Ct. 446. In *Phillips*, the Supreme Court held that the interest generated by funds held in Interest on Lawyers Trust Accounts (IOLTA) is the private property of the owner of the principal. *Phillips*, 524 U.S. at 172, 118 S.Ct. 1925. Plaintiff, however, seeks to expand the holdings of *Webb's* and *Phillips* far beyond that which was contemplated by the Supreme Court. *Webb's*, 449 U.S. at 164, 101 S.Ct. 446 (explaining that the Court's holding was limited to "the narrow circumstances of this case").

In *Webb's* and *Phillips*, the Court gave significant weight to the fact that the principal held in the accounts was private property of the owner. *Webb's*, 449 U.S. at 160, 101 S.Ct. 446 ("The principal sum deposited in the registry of the court

plainly was private property . . . ."); *Phillips,* 524 U.S. at 164, 118 S.Ct. 1925 ("All agree that ··· the principal held in the IOLTA trust account was the 'private property' of the client."). In *Phillips,* the Court noted that the money "remain[ed] in the control of the private attorney and [was] freely available to the client upon demand." *Phillips,* 524 U.S. at 164, 118 S.Ct. 1925. Conversely, in our case, the fees were neither in the control of plaintiff, or his representative, after they were deposited with the PTO, nor were they available to plaintiff, or his representative, upon demand. See *id.;* see also 35 U.S.C. § 42(b) (explaining that patent fees are credited to the PTO). Therefore, plaintiff did not possess any of the rights traditionally associated with ownership, see *Phillips,* 524 U.S. at 169-70, 118 S.Ct. 1925, and did not have any property right in the distribution of the proceeds. *Webb's,* 449 U.S. at 161, 101 S.Ct. 446.

Although *Webb's* and *Phillips* protect the principal and interest of private funds, plaintiff paid the patent fees as a condition of applying for a patent and the PTO was not holding the patent fees in trust on plaintiff's behalf. The CDA contains funds paid by customers "in anticipation of a future demand for services."[44] These are the only funds that are held in "trust for the PTO's customers."[45] Plaintiff did not deposit

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44. *Id.,* App. at 17.

45. *Id.,* App. at 15. Compare *id.,* App. at 15 (noting that "$46.2 million represented moneys held in trust for PTO's customers" at the conclusion of fiscal year 1997) with *id.,* App. at 18 (explaining that the liability for CDAs at the end of fiscal year 1997 was $46.2 million).

any funds into the CDA account, and nevertheless, it does not appear that any funds were diverted or rescinded from that particular account.[46] On the other hand, the portion of the PTO Performance and Accountability Report Fiscal Year 2000 cited to by plaintiff does not support the proposition that the CRO is an account which holds patent fees in trust on plaintiff's behalf. There is, therefore, no genuine issue of material fact and defendant is entitled to judgment as a matter of law on this issue. The Constitution protects rather than creates property interests, see *Bd. of Regents of State Colleges v. Roth,* 408 U.S. 564, 577, 92 S.Ct. 2701, 33 L.Ed.2d 548 (1972), and the court will not expand takings law to encompass constructive trusts over non-private funds.

Conclusion

For the above-stated reasons, defendant's motion to dismiss plaintiff's claims concerning the "increases, diversions, and rescissions" of patent fees is DENIED-IN-PART and GRANTED-IN-PART. Plaintiff's claim is limited to the six years prior to the date of the complaint. Any person who did not pay patent fees does not have standing to challenge the "increases, diversions, and rescissions" of patent fees. Paul Theis is therefore DISMISSED from the action. Defendant's motion to dismiss for lack of subject matter jurisdiction is DENIED. Defendant's motion to dismiss plaintiff's Patent Clause claim, as an illegal exaction, for failure to state a claim is DENIED. Defendant's motion to dismiss plaintiff's Direct Tax claim for failure to state a claim is GRANTED. Defendant's motion to dismiss

46. Pl.'s Reply at 11; Pl.'s Opp'n, App. at 17.

plaintiff's takings claim, concerning the payment of patent fees, for failure to state a claim is GRANTED. With respect to plaintiff's trust argument, the court treated the motion as one for summary judgment because the parties relied on more than just the pleadings. Defendant's motion for summary judgment regarding plaintiff's trust argument is GRANTED. The parties are directed to file a joint status report indicating further proceedings by Friday, September 26, 2003.

IT IS SO ORDERED.

BOHDAN A FUTEY
Judge